

# FINANCIAL TIMES

Europe's Business Newspaper

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## Euro Disney asks watchdog to probe share price slide

Euro Disney, the troubled leisure group, is to ask the Paris stock market to investigate the recent fall in its shares, which yesterday were twice suspended after plunging to a record low. The group, which recently concluded negotiations with its banks for a FF1.3bn (\$2.4bn) financial rescue, saw its shares end the day 11.6 per cent down at FF6.40, having fallen to FF7.75 during the morning. Page 20

**Ivax buys Zenith in \$600m deal** Ivax, a generic drugs manufacturer based in Miami, announced the purchase of rival drug maker Zenith Laboratories in an all-stock deal valued at nearly \$600m. Page 17

**SPD challenges Kohl's Germany's opposition** Social Democratic party, trailing in the polls, tried to recover lost momentum by presenting a new triumvirate with which they hope to dethrone Chancellor Helmut Kohl's bid for a fourth term at the October general elections. Page 16

**Serbian leaders ignore referendum** With diplomatic efforts under way to broker an agreement on supervision of Serbia's borders with Bosnia, Serbian leaders pointedly ignored a Bosnian Serb vote to reject a UN-backed partition of Bosnia. Page 2

**Banks to gain £100m from shares sale** A syndicate of 26 international banks which acquired convertible preference shares in international advertising group WPP as part of a \$271.6m debt-for-equity swap two years ago, is expected to make a profit of around £100m (\$155m) when the shares are sold. Page 17

**Riyadh boycotts population talks** Saudi Arabia, one of the world's most strictly Islamic states, has decided not to send a delegation to next week's United Nations Conference on Population and Development. Page 3

**Uphorn at Swedish construction group** NCC, Sweden's second largest construction group, reported a strong upturn in underlying performance even though conditions in its home market worsened. Excluding one-off gains from share sales, the group swung to a SKr108m (\$13.7m) profit from a SKr170m loss. Page 19

**MAN upbeat despite earnings drop** German engineering and commercial vehicles group MAN claimed to have ridden out the recession in spite of a 30 per cent drop in annual net earnings to DM160m (\$98.7m). Page 18

**Danish PM calls elections** Danish prime minister Poul Nyrup Rasmussen called a general election for September 21 despite an opinion poll showing that two of the four parties in his centre-left majority coalition face elimination. Page 2

**Lloyd's seeks up to £250m** Lloyd's of London is expected to raise between £125m and £250m (\$194m to \$388m) in capital from corporate investors to help offset a decline in capital supplied by Names, the individuals whose assets have traditionally supported the insurance market. Page 17

**Recovery at Groupe Bull** Troubled French computer manufacturer Groupe Bull will show an operating profit at the end of this financial year. Page 17

**South African miners agree pay deal** South Africa's 200,000 gold and coal miners agreed on an average 9.75 per cent wage settlement. Page 3

**Disclosure plan for unit trusts** UK companies which sell unit trusts are to be required to give more information about the products and about their fees. Page 21

**Doctors oppose pay changes** Doctors will step up opposition to proposals for performance-related pay in the UK National Health Service at a special conference in London tomorrow. Page 6

**Private funding sought for telecoms** The private sector should take the lead in funding the telecommunications networks of the future, EU industry commissioner Martin Bangemann said. Page 2

**Bond market turmoil hits Skandia** Turmoil in international bond markets helped push Swedish insurer Skandia to a first half loss of SKr2.40bn (\$322.9m) from a SKr1.95bn profit at the management operating level. Page 19

**UK boom in mobile phones** Mobile phones are enjoying such a boom in the UK that new cellular phone connections are racing ahead of connections to traditional fixed phone networks. Page 5

**Poland expects investment boost** Poland expects to see private investment inflows worth "well over \$1bn a year" in the wake of its commercial debt reduction agreement, Gregorz Kolodko, the country's deputy premier and finance minister said. Page 3

**Hospitality plan for Royal yacht** Two government departments are pressing for the British royal family to have a new yacht to replace Britannia only if big companies are prepared to use it for corporate entertaining. Page 5

STOCK MARKET INDICES			
Tokyo Nikkei	21,600.42	(+128.53)	
New York S&P 500	4,389.50	(+18.45)	
Dow Jones Ind Ave	3,892.50	(+18.45)	
FTSE 100	4,744.87	(+1.17)	
US DOLLAR RATES			
New York London	1.57975		
3-mo Treas Bill 1m	4.575%		
Long Bond	100		
Yield	7.46%		
Gold			
New York COMEX	339.1	(38.0)	
Dec			

Austria	5.00	Germany	1.00	Italy	1.00	Japan	1.00	UK	1.00	US	1.00
Belgium	1.00	Hong Kong	1.00	India	1.00	Malaysia	1.00	Netherlands	1.00	Spain	1.00
France	1.00	Indonesia	1.00	Israel	1.00	South Africa	1.00	Sweden	1.00	Switzerland	1.00
Denmark	1.00	South Korea	1.00	Singapore	1.00	Taiwan	1.00	Thailand	1.00	USA	1.00
Finland	1.00	USA	1.00	UK	1.00	West Germany	1.00	Yemen	1.00		
Greece	1.00										

## Acquisition of Sterling Health creates world's biggest consumer drugs group SmithKline in \$2.9bn US deal

By Daniel Green and Richard Waters

SmithKline Beecham is creating the world's biggest consumer drugs business by buying Sterling Health from Eastman Kodak of the US for \$2.925bn.

The deal, announced yesterday, brings Sterling Health's big-selling brands such as Panadol and Advil together with SmithKline's Eno and Tums.

It is the largest acquisition yet in over-the-counter (OTC) drugs and doubles London-based SB's annual OTC sales to more than \$2bn.

OTC will pay cash, funding the acquisition through bank borrowings and commercial paper.

The deal is SB's second multi-billion dollar acquisition since Mr Jan Leachly became chief executive in April. The following month it paid \$2.3bn for Diversi-

fied Pharmaceuticals Services, a US drugs distributor.

SB and Sterling Health have fought over markets in pain-killers and gastro-intestinal remedies for many years, largely in the US, UK and Germany where SB has 70 per cent of its OTC sales.

This deal gives SB a presence in more than 100 countries. "We are going to become the major healthcare company in the world," said Mr Leachly, yesterday.

There has been a series of mergers and takeovers in the healthcare industry involving many of the largest companies such as Eli Lilly and Merck of the US and Switzerland's Roche. The industry's consolidation is a response to pressure from customers - employers who pay health insurance premiums in the US and governments else-

where - to cut healthcare costs.

Sterling Health made a profit of \$182.4m on sales of \$1,006m in 1993 and had net assets of \$372.1m at the end of last year.

A provision in SB's accounts of about \$500m will be made to

cover the costs of restructuring and rationalising the combined businesses.

Gearing, net debt as a percentage of shareholders' funds, will rise from less than 60 per cent to 300 per cent by the end of this year, but should fall by 1996 as SB sells off its non-strategic businesses, said Mr Hugh Collum, the

company's finance director.

Kodak could raise almost \$4.6bn from this sale and the planned sale of Sterling's prescription business to Sanofi for nearly \$1.7bn.

The company said it hoped to complete the Sanofi deal early in the third quarter of calendar year 1994, with the SB transaction being closed in the fourth.

The cash will be used to reduce Kodak's \$6.4bn debt. The company is also in talks to sell L&F Products for an estimated \$2bn. L&F is a do-it-yourself products company with sales last year of \$1bn. Kodak also wants to sell its clinical diagnostics business - which had 1993 sales of around \$700m - for which it could expect more than \$1bn. In morning New York share trading, SB rose 7% to \$35. Shares in Kodak rose 1% to \$50.

SB has had intermittent discussions with Eastman Kodak over Sterling Health for about four years. But it was only in May this year that Eastman Kodak declared its intention to sell its healthcare operations. The sale to Eli Lilly, its European partner, came the following month.

Further deals are likely in the sector. Shares in Marion Merrell Dow, the drugs company which is 72 per cent owned by Dow Chemical, climbed 8 per cent yesterday morning on news that it had retained Lehman Brothers to advise it on a number of options, including "potential business combinations".

In a separate deal, Ivax, a diversified healthcare group, said it would acquire Zenith Laboratories in an all-stock transaction. Between them, the two companies had sales last year of \$700m.

## Chinese crackdown to protect Sega games copyright

By Michio Nakamoto in Tokyo

Chinese authorities have ordered an electronics company in the south of the country to stop making video games machines with programmes identical to those marketed by Sega Enterprises of Japan.

The victory for Sega the Hedgehog and other Sega characters represents what is believed to be the first Chinese administrative measure against a local manufacturer over infringement of a foreign computer company's software.

It comes not long after a Beijing court ruled that the image of Mickey Mouse could not be used without the US Walt Disney entertainment group's permission.

China's National Copyright Administration has ordered the Shenzhen Shenchu Electronic Equipment Factory (Shenchu) immediately to stop manufacturing and selling game consoles with game programmes which it ruled infringed Sega's copyright.

Shenchu has also been ordered to deliver all offending games cards to the government authority, and a fine of Yuan 30,000 (\$3,520) has been imposed.

News of the crackdown also coincides with a visit to Beijing of a US trade mission by Mr Ron Brown, the commerce secretary.

Sega filed a suit against Shenchu in May and an investigation by Chinese authorities found that 15 out of 20 games incorporated in Shenchu's machines were identical to games developed and manufactured by Sega.

The investigation led the Chinese earlier this month to determine that Sega's game cards should be protected as computer software under the country's copyright laws.

The move comes as China is under increasing pressure from the international community to enforce its copyright laws.

The US has urged the Chinese government to take action against audio and video software pirates, and Beijing's willingness to pursue those who breach copyright coincides with its campaign for reconnection to the General Agreement on Tariffs and Trade, which it left more than 40 years ago.

Sega welcomed the Chinese decision which, it said, would be helpful in considering whether or not to launch marketing operations in China, where infringement of its copyright has been rampant.

While reluctant to market its games, the company already manufactures video games consoles in China for export markets.

US seals contracts for \$200m, Page 16

## West Bank agreement is signed



Israeli Major General Danny Rothchild (left) and Nabil Shaath, the chief Palestinian Liberation Organisation negotiator, pocket their pens yesterday after signing an accord transferring the control of education, taxation, health, welfare and tourism affairs in the occupied West Bank to Palestinian hands.

The deal is the most important step in the Israeli-PLO autonomy process since self-rule for the Palestinians of Gaza and Jericho

came into effect four months ago. The transfer of the education system has already been completed, in advance of the start of the new school year.

At the signing, at the Erez crossing point between Israel and the Gaza Strip, Mr Shaath said the accord "proves that the peace process continues, that it will not stop at Gaza and Jericho, that it will go through the West Bank... that it is implementable." The ceremony was

delayed for a short time by the PLO representatives, protesting at Israel's refusal on Sunday to allow a Pakistani diplomat to enter the Gaza Strip. The diplomat had intended to prepare the

ground for a visit to Gaza by prime minister Benazir Bhutto. She has since cancelled the planned trip. Israel breaks pattern with 1.5 per cent interest rate rise, Page 3

## Fish stir up sea of diplomatic troubles

By Our Foreign Staff

Ten Taiwanese fishing vessels impounded by Indonesia, British fishing vessels slashed in the Bay of Biscay, Japanese fishermen shot at by a Russian gunboat, and an Icelandic trawler and Norwegian coastguard vessel exchanging fire - in the past month, fish have become an increasing cause of diplomatic incidents.

A United Nations conference over the last two weeks in New York was intended to end disputes over migratory species. The participants were said to have agreed "overwhelmingly" that a pact was needed to end conflict among member nations, but the meeting reached no consensus.

The conference came as fishing nations have been increasingly at odds with one another over declining stocks. Fishing boats have ventured into new territory in the search for stocks, and are creating diplomatic disputes.

Environmental groups are painting a grim picture of depleted oceans in the next century. They point the finger at new technology that has allowed

fishing vessels to locate schools of fish, and improved winches and net materials which have increased efficiency.

The UN Food and Agriculture Organisation estimates that worldwide catches rose more than fourfold in the four decades to 1990, but governments say there are signs of decline.

Fishing communities are also under threat. In Spain, Basque fishermen warn that there "could be deaths and sinkings" unless European Union fisheries ministers agree to ban drift-nets at their meeting in Brussels on September 23.

From Thursday, tuna caught by traditional lines in Spanish waters will have a green aluminium logo clipped on the tail, distinguishing them from fish caught in drift-nets. And the New Zealand government will this week attempt to settle a dispute with environmentalists over new regulations that give fishing companies more say in establishing sustainable quotas.

Fleets fight in over-fished waters, Page 4

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## NEWS: INTERNATIONAL

## Belgrade ignores Bosnian Serb vote

By Laura Silber in Belgrade

With diplomatic efforts under way to broker an agreement on supervision of Serbia's borders with Bosnia, Serbian leaders yesterday pointedly ignored the defiant vote of their one-time Bosnian protégés who decided in a weekend referendum to reject a UN-backed partition of Bosnia.

After a marathon meeting lasting until early yesterday morning with President Slobodan Milosevic of Serbia, Mr Andrej Kozmicev, Russia's foreign minister, continued a diplomatic tour of former Yugoslavia, aimed at restoring the Moslem-led Bosnian government.

The Belgrade meeting remained shrouded in secrecy yesterday but diplomats believe Mr Milosevic was trying to see what concessions he could wring from Russia and the West in exchange for stationing missiles on the frontier with Bosnia. Serbia imposed economic sanctions on the Bosnian Serbs earlier this month for their refusal to endorse a peace plan.

They believe the international community is keen to give the impression that Mr Milosevic is not under international pressure to put monitors on the border. This would ease nationalists' charges about betraying their kin in Bosnia.

The contact group - Russia, the US, Germany, France and the UK - is hoping that Mr Milosevic will tighten the noose round the Bosnian Serbs. But reports that he had proposed monitors on Bosnia's frontiers with Croatia too were dismissed as a "non-starter".

The US has threatened to lift its embargo on arms sales to the warring parties in Bosnia if Bosnian Serbs continue to block the peace plan, but the Bosnian Moslem government has been bolstering its army with weapons smuggled through Croatia.

Mr Milosevic's resolve to punish Bosnian Serb leaders may harden after referendum results from Serb areas in Bosnia yesterday, which showed that the partition maps proposed by the contact group had been overwhelmingly rejected.

The results of the poll - dismissed as irrelevant by peace mediators - came as no surprise. While diplomats admit that the referendum may further entrench the Bosnian Serb leadership, they say it will have little impact on the peace process.

More than 90 per cent of Bosnian Serb voters rejected the maps which divide the war-torn country roughly in half, said Mr Petko Cancar, head of the referendum commission.

## Bangemann appeals for more competition

## EU plea for private telecom funding

By Lionel Barber in Brussels

The private sector - not the public sector - should take the lead in funding the telecommunications networks of the future, Mr Martin Bangemann, EU industry commissioner, said yesterday.

In a speech to the 13th World Computer Congress in Hamburg, Mr Bangemann said there was no need for extra public sector funding; but he warned that private companies and consortia had to be given the chance to compete on an equal footing.

"This means breaking up long distance telephone monopolies, and linking existing networks as fast as possible so as to achieve the lower tariffs vital for creating the new information society."

"The only way to get lower tariffs is through competition," he told delegates.

Mr Bangemann's crusading tone comes amid pressure from Brussels to liberalise the supply of telecommunications infrastructure across the European Union, despite continued opposition from national telecom operators fighting the loss of their monopolies.

Mobile, satellite and other business-related services are already open to competition. EU governments have also agreed to set a target date of 1998 for the opening of competition in basic "voice services".



Martin Bangemann: call for network extensions

which account for most of the revenue of telecom operators.

But the question of competing infrastructure, as permitted in the UK, has been left for decision in 1995 with no prior commitment to liberalise. Mr Bangemann's speech yesterday suggests further pressure from the Commission to bring forward the decision and secure a commitment to infrastructure competition from member states.

The speech comes as the European Commission is putting final touches to a new document on EU industrial policy in the 1990s. The document is likely to be measured against the strategy for industrial policy set out by Mr Bangemann

in 1990. The 1990 paper abandoned "vertical" policies in favour of channelling aid to particular sectors. Instead, it promoted "horizontal" spending on training, infrastructure and research - the idea being to bolster competitiveness and benefit the whole European economy rather than championing individual industries.

In his speech, Mr Bangemann said industrial policy should not only cover the technological industries of tomorrow. New technologies could - and should - be adapted to tackle today's problems.

He cited the use of computerised traffic management systems; introduction of modern diagnostic equipment which could offer early warning systems registering air pollution; and use of information networks such as "telemedicine".

Mr Bangemann called for an extension of telecom networks to pave the way for multi-media services such as tele-shopping, telebanking and teleworking.

But he also said it was important to strengthen data protection and copyright. EU leaders at the Corfu summit last June agreed that the Commission should establish a regulatory framework to cover access to markets, compatibility between networks, intellectual property rights and data protection.

## Danes to go to the polls next month

By Hilary Barnes in Copenhagen

Prime Minister Poul Nyrup Rasmussen yesterday called a general election to the Folketing for September 21, breaking with tradition by choosing a Wednesday rather than a Tuesday for the vote.

Mr Rasmussen, leader of the Social Democratic party, made his announcement despite a Gallup poll yesterday that showed two of the four parties in his centre-left majority coalition face elimination from the Folketing.

"A Gallup poll is not the same as an election," he said.

He hoped to be able to continue in office at the head of the present government, which besides his own party includes the Radical Liberals, the Centre Democrats and the Christian People's Party.

The latter two parties risk falling to qualify for Folketing seats by attracting less than 2 per cent of the vote.

If the election result reflects the opinion polls, the next parliament will be sharply divided between the left and right because of the weakened small centre parties.

Mr Rasmussen however, has a good chance of staying at the head of a minority government of Social Democrats and Radicals, but this government would have to rely on the support of the left-wing Socialist People's party. Together, these three parties scored 52 per cent in yesterday's Gallup,

with the Social Democrats at 33.5 per cent compared with 37.4 per cent in the 1991 election. The Radicals at 4.8 per cent compared with 3.5 per cent and the Socialist People's party moving ahead to 11.1 per cent from 5.3 per cent.

Mr Uffe Ellemann-Jensen, leader of the Liberal party and the leading candidate to become prime minister in a non-Socialist coalition, welcomed the Gallup. "People can see the risk they run of getting a red cabinet," he said.

The Liberals are heading for a strong result, with Gallup showing them at 23.1 per cent against 15.8 per cent in 1991.

The Liberal party and the Conservative party, led by Mr Hans Engell, the former minister of justice, hope to form a coalition on the basis of support from the right-wing populist Progress party.

Mr Rasmussen's coalition took office (without election) in January 1993, after just over 10 years of rule by Conservative-Liberal coalition under Conservative leader Mr Poul Schluter, who resigned over the treatment of Tamil refugees. Mr Rasmussen's government has implemented a strongly expansive fiscal policy this year to kick-start the economy.

Mr Rasmussen said the election campaign would focus on the welfare state, which his own party wished to maintain and improve, while the right aims to cut government expenditure.

## WORLD NEWS DIGEST

## US probe into aluminium pact

The US Justice Department is investigating whether a worldwide agreement last January to cut production of aluminium may have led to violations of anti-trust law by the aluminium industry. The US Aluminium Association said it had received formal notice of an investigation into possible anti-trust violations stemming from the agreement to restrict production of primary aluminium. US aluminium producers have got similar notice.

Ironically, the US government was one of the parties to the January agreement, which also involved Russia, the European Union, Canada, Norway and Australia, and was one of the keenest advocates of production restrictions to deal with a glut of aluminium on the world market. The agreement came in response to a flood of exports of primary aluminium from Russia, which had previously used most of its output for domestic military purposes.

At the January meeting Russia agreed to cut production by 500,000 tonnes, or about 15 per cent, for two years, while western producers were expected to make voluntary cuts totalling around 1m tonnes. The Aluminium Association said it would operate fully with the probe and was "confident that the association's programmes have been conducted in compliance with anti-trust law." *George Graham, Washington*

## Albania presses on with trial

Albanian prosecutors yesterday demanded jail terms of between seven and nine years for five ethnic Greeks accused of spying for Athens. If they are convicted, it could put Albania on a collision course with Athens, which has already deported thousands of illegal Albanian immigrants from Greece in retaliation for what it calls a political trial. The Albanian government said Greece had deported 26,000 illegal Albanian immigrants since August 15 and Albanians living near the southern border with Greece said Athens had also tightened land and sea frontier controls.

The five accused, all members of the ethnic Greek organisation Omonia, based in southern Albania, were arrested in April following a raid on a military camp close to the Greek border. Two Albanian conscripts were killed. Tirana blamed Greece for the raid but Athens denied the charge. "They have all committed the crime of serving the Greek secret service," the prosecutor alleged. The prosecutor said the men were found in possession of illegal weapons with the intention of arming the minority "at a certain time according to orders". The trial has rekindled deep-seated tensions between Albania and Greece, which accuses Tirana of mistreating its Greek minority, estimated by Athens at 300,000 and by Tirana at 60,000. *Reuter, Tirana*

## Russian crew looks for escape

Crew members of a Russian ship stranded in a Ukrainian port for six months have run out of food and soon will have no choice but to try to outrun the Ukrainian coast guard, the ship's captain said yesterday. The Russian ship *Modest* was detained by Ukrainian authorities at the Crimean port of Eysatoria. It has a cargo of 60 tonnes of Ukrainian ammunition for Angola. But the Ukrainian suppliers wanted the delivery stopped as they had not received payment from Angola. "If Moscow and Kiev do not help the Russian sailors, my crew will only have one option: to try to break past the border and outrun the Ukrainian coast-guard," Captain Leonid Volkovskiy told a Russian news agency. He said a Russian official had come on board to try to resolve the dispute. One solution might be to load the contested cargo on to another Russian ship. *Christina Frelund, Moscow*

## Ukrainian bid to fight crime

Ukraine's president Leonid Kuchma this week moved again to fight crime, with a decree consolidating the country's disparate security services. With crime heading the domestic political agenda, his latest step addresses public concern over what he calls the "mafialisation of Ukraine", but carries a potentially high cost in the centralisation of police powers. After authorising police to detain suspects for 30 days without charge last month, Mr Kuchma at the weekend said the general prosecutor, the interior ministry and the security service, heir to the KGB, were to join forces on "the most difficult cases of crimes in financial and banking services, trade and those committed by public servants". The move aims to stem the spread of organised crime, but observers are worried that, by centralising investigative efforts in a manner reminiscent of the Soviet period, corruption could be entrenched at high levels, including within agencies charged with fighting it. *Matthew Kaminski, Kiev*

## Australian trade deficit widens

The Australian current account deficit widened to a seasonally adjusted \$31.84bn (£287m) in July, the largest monthly deficit since March 1993 and at the upper end of market expectations. The revised deficit for June was \$31.55bn. The figure caused mild concern in financial markets, where the Australian dollar closed weaker against the US currency. There have been persistent worries that the country's strong economic recovery, which has been driven by domestic demand, coupled with the very slow upturn in business investment, could pose problems on the balance of payments front. If investment starts to surge all at once, it is argued, imports of plant and equipment will be sucked in, giving rise to mounting trade deficits. In addition, some analysts are concerned that the current growth, affecting parts of Queensland and much of New South Wales, will depress agricultural exports, compounding this problem. However, Mr Paul Keating, the prime minister, said yesterday that he believed structural changes which had made the economy more competitive should prevent a big current account problem. "The Treasury expects some increase in the deficit this year," he said, "but unlike some episodes in the past, the increase is expected to be limited." *Nikki Tuk, Sydney*

## Malaysia acts against sect

The Malaysian government has made further moves against an Islamic sect it accuses of trying to destabilise the country. According to government edicts published at the weekend, anyone actively involved with Al Arqam, a sect which claims 100,000 followers in Malaysia and many more in surrounding countries, is liable to arrest, flogging and imprisonment. Earlier this month, Malaysia's national Fatwa council, the body that rules on Islamic orthodoxy, said Al Arqam teachings were deviationist. More than 30 of the sect's followers were arrested over the weekend. Malaysian non-government organisations and the country's bar council have expressed concern that the government's moves violate human rights. Brokers said that a drop of more than 2 per cent on the Kuala Lumpur stock market on Friday was due to general nervousness about the government's actions against Al Arqam. The market was stable yesterday in lacklustre trading. *Kieran Cooke, Singapore*

## Incomes on the rise in US

Personal incomes in the US rose a seasonally adjusted 0.5 per cent in July, the sixth straight monthly increase, outstripping the 0.2 per cent increase in consumer spending, the Commerce Department reported yesterday. Income after taxes also rose 0.5 per cent. The increases follow a rise of 0.1 per cent in June income and disposable income. Personal consumption expenditures (PCE) increased by 0.3 per cent in July, coming after a revised 0.5 per cent rise the previous month. The July figures for income and spending were generally in line with analysts' forecasts and show the economy is growing at a moderate pace. The savings rate, which represents savings as a percentage of disposable income, rose to 4.1 per cent in July from 3.7 per cent in June. Wages and salaries, a component of income closely watched by the markets for signs of inflationary pressure, also rose 0.5 per cent. The PCE deflator index, an inflation measure, rose to 129.7 in July from 129.2 in June. *James Harting, Washington*

## Poland expects debt deal to boost investment

By Christopher Bobinski in Warsaw

Poland expects to see private investment inflows worth "well over \$1bn (£600m) a year" in the wake of its commercial debt reduction agreement due to be completed this month, Mr Grzegorz Kolodko, the country's deputy premier and finance minister said yesterday.

Mr Kolodko was speaking after Poland had received the final assents needed from 800 holders of the country's \$14bn of commercial debt for the agreement to go ahead. "Last Friday the last major holder agreed to the buy-back component," Mr Kolodko said. This meant the debt reduction would amount to 49.5 per cent of the commercial debt stock.

Overall at the end of April Poland's net foreign debt stood at \$44bn. The country's debt to western governments grouped in the Paris Club was cut by 50 per cent in a 1991 agreement.

"We have had an abnormal external credit situation since 1990 when the debt crisis first hit us and now we are returning to normal financial relations," Mr Kolodko said.

The agreement, which is due to be signed in Warsaw on September 14, means that the country's \$14bn commercial debt will be cut by \$6.9bn with another \$2.4bn worth being bought back by the Poles at a rate of 41 cents to the dollar. The rest of the debt will be exchanged into 30-year par and discount bonds worth a total of \$4.5bn.

The bonds are to be secured against the sum of around \$800m deposited in the US Federal Reserve in US treasury bonds which will be used to redeem the Polish government paper once it falls due in October 2024.

The \$1.5bn initial cost of the agreement is to be financed by \$1.3bn worth of loans from the IMF and the World Bank with the balance coming from the

NBP, the Polish central bank's reserves. Interest payments next year will cost \$363m while the agreement, which is more generous to the Poles than originally thought because of the high buy-back component, will cost an average of \$450m annually in interest payments over the next 30 years.

As late as mid-July the Poles only had the assent of 92 per cent of holders of the debt, while 95 per cent was needed for the key buy-back component to be implemented. One major creditor, believed to be the Dart family of Florida in the USA, who holds \$600m or 7 per cent of the debt, was then refusing to accept the reduction deal.

"We explained to them that they had no option but to join the agreement and they assented last Friday without any additional conditions," Mr Krzysztof Krowczycki, the Polish debt negotiator said yesterday, without confirming the identity of the creditor.



Mr Rasmussen announcing the election yesterday: 'A Gallup poll is not the same as an election'

## Polish police crack down on TV stations

By Christopher Bobinski

Polish police yesterday closed down six unlicensed television stations belonging to a chain controlled by Mr Nicola Grauso, a media owner from Sardinia. The crackdown on the stations in six cities including Warsaw - which had been broadcasting on frequencies reserved for the military - came after Mr Grauso failed to

get either a national or regional broadcast licence in allocations earlier this year.

The Polonia 1 network of 12 regional TV stations had continued to broadcast a popular diet of soap operas and films in defiance of broadcast legislation passed last year.

A justice ministry official said police closed those stations broadcasting on frequencies reserved for the military,

but stressed that a further eight, including one not owned by Mr Grauso, would also be shut down shortly.

"Police officers and prosecutors visited the illegal stations, ordering that they be closed and in cases of no compliance they turned the equipment off themselves," the official said.

Mr Grauso also owns the Zycie Warszawy daily newspaper and says he has invested in

excess of \$30m in Poland. The network claims a 30 per cent share of the audience and is favoured by President Lech Walesa, who sees it as a potential ally in his second-term presidential campaign due late next year.

The president has made no secret of his opposition to Poland, the Polish-owned station which has been granted the country's only national commercial TV licence. This decision is being contested in the courts by rivals seeking a licence.

Polonia 1 officials claimed the police action was unexpected and brutal.

"It was a storm - fully armed anti-terrorist brigades were used against defenceless journalists, many of them women," Polonia 1's spokesman said.

## Bratislava starts to catch up with ally

By Vincent Boland in Bratislava

Shortly after the Velvet Revolution of 1989 that ousted communism in the former Czechoslovakia there was a crisis in Bratislava's supermarkets. They ran out of yoghurt.

The distribution system, geared to a centrally planned economy, collapsed and it suddenly became impossible to get domestic products. "We have very good yoghurt in Slovakia," notes Mr Peter Kresánek, mayor of Bratislava. "But three years ago you couldn't buy Slovak yoghurt, only Austrian."

Happily, local producers soon got the hang of the market economy and Slovak yoghurt is now on display again. Ironically, it is now a big hit with the thousands of Austrian shoppers who stream across the border from Vienna, just 65km to the west, every weekend to take advantage of the city's lower prices. With the average Austrian industrial wage of \$3,500 against Slovakia's \$200 a month, the attractions are obvious.

The crowds of Austrian shoppers testify not just to the geographical closeness of the two cities, but also to a new business relationship that has developed since the revolution. It is a two-way relationship. Since border restrictions were eased thousands of Bratislava have begun to travel to the Austrian capital daily to work on construction sites, as cleaners, or in shops and restaurants.

As a result unemployment in Bratislava, at less than 5 per cent, is far lower than the Slovak average of nearly 15 per cent, and higher Austrian wages give Bratislava more spending power at home.

"The relationship is very good, both on the personal and the economic level," Mr Kresánek says. For many Bratislava the restored links are symbolised by the close personal and working ties between Mr Kresánek and his Viennese counterpart, Mr Helmut Zilk.

At the height of the Velvet Revolution Mr Zilk made an unexpected appearance at an anti-government rally in Bratislava to tell 100,000 cheering

Slovaks that the people of Vienna stood by them in their struggle. The gesture, remembered with affection by many Bratislava, is credited with reawakening links between the two cities. Mr Zilk became an honorary citizen of the Slovak capital shortly afterwards, and the two men met regularly.

Austria is by far the biggest foreign investor in Slovakia, accounting for over a quarter of all foreign investment in the country at the end of June. About half the total Austrian investment of \$275m (£177m) in Slovakia is in Bratislava. Slovakia exports to Austria last year were worth over \$300m, and grew to nearly \$200m in the first half of 1994.

Ambitious plans are on the drawing board to improve road and rail links, upgrade services on the Danube for tourism and cargo and even revive a passenger tram line that ran between the two cities from 1914 to 1948, although the economic cost of the latter is believed to be prohibitive.

The relationship, not surprisingly, is becoming increasingly competitive. Business people in Bratislava trumpet the city's cost advantages and well-oiled workforces, but admit its drawbacks. "Bratislava can beat Vienna on cost, but not on infrastructure," says Mr L'ubomir Kardoš, a Bratislava businessman who says he wants to expand his stationary business into Vienna.

Some successes have been noted. Organisers of the annual Bratislava Trade Fair claim to have won exhibitors away from the Vienna fair by offering display space at a fifth of the cost. With Vienna airport roughly half way between the two cities, the Slovaks are counting on their lower costs to lure more business east.

The Financial Times plans to publish a Survey on Tyne & Wear on Tuesday, October 11.

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FT Surveys

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مكتبة



## US phone groups win video victory

By George Graham in Washington

US local telephone companies have won a court victory in their battle to be allowed to offer video services to their customers.

The US appeals court in Washington has upheld a Federal Communications Commission policy permitting companies to offer "video dial tone" services to their customers without paying a franchise fee to the local government, as cable TV systems must do. Unlike a cable system, where customers can receive only a fixed list of channels, a video dial tone system would allow any programmer to send its signal over the telephone line.

Although not as futuristic as video on demand, where customers could dial up and ask for a specific film, video dial

tone is not yet an operating service. But the FCC has approved several applications to be allowed to offer the service and Bell Atlantic, the east coast regional telephone company, is expected to have a service in operation soon.

Local phone companies would be allowed to offer video dial tone services without obtaining a franchise in each community under some versions of the telecommunications legislation under discussion in Congress, so long as they were open to all programmers. But some industry officials doubt whether that legislation will be completed before Congress breaks up for the election campaign.

The legislation would, in any case, require phone companies to wait for a year after enactment. Franchise fees paid to local

government by cable companies typically amount to 5 per cent of revenue but can go higher. Telephone company officials said the appeals court's decision would remove a significant potential deterrent to investing in the new technology.

The court decision said that the FCC was right in its determination that a telephone company providing video dial tone would not be engaged in the "transmission of video programming" as defined in the Cable Act, but was instead acting as a common carrier, rather like the Post Office.

Cable companies complained that the ruling would put them at a disadvantage, since they not only have to pay a franchise fee but also have to comply with regulatory requirements under the Cable Act.

## Inflation forces hand of Chinese leaders

By Tony Walker in Beijing

Chinese leaders may not have panicked over recent bad economic news but they have certainly reacted vigorously to indications that a 12-month-old programme aimed at curbing an overheating economy was faltering.

Since last week they have reasserted price controls and announced that failing state-owned enterprises would be bailed out. Less emphasis is being placed in government statements on reform than on stabilising an economy which is proving resistant to attempts to rein it in.

The question for western economists and for business is whether a price freeze accompanied by "welfare" payments to state industry marks a backing away from economic liberalisation, or whether the authorities are simply putting on the brakes.

Chinese economists' scorn at western concerns about possible backsliding in reform, saying the government has been forced into more decisive measures by a resurgence of inflation and by signs that an increasing number of cash-

starved state industries are on the verge of collapse.

Professor Dong Fureng, one of China's most senior economists in his role as director of the Institute of Economics at the Academy of Social Sciences, said last night that the government was obliged to resort to a more interventionist approach to slow an economy which was still growing too fast. The present rate of economic growth was "unsustainable", he said, and resources such as power supplies and transportation continued to be overstretched. This in turn was exacerbating inflation. "If inflation goes too high, it will cause chaos," Prof Dong added.

This is the same message that Mr Li Peng, the Chinese premier, delivered at the week-end when announcing that for the rest of this year curbing inflation would be the government's leading priority. Mr Li said the specific of social unrest to justify sterner measures.

Official alarm about inflation was heightened by the July urban retail figures which showed that prices had jumped 24.2 per cent for the 12 months,

reversing a moderating trend. The had result followed release of capital spending figures which revealed an astonishing leap of 75 per cent in July in fixed asset investment compared with the same period last year.

Western economists in Beijing say the government has recognised that the macro-control measures announced in July 1993, including a credit squeeze, had not been sufficient to calm an economy which grew by 13 per cent or more in the past two years. But they worry that deepening alarm about inflation may cause the authorities to repeat mistakes of the past such as the severe retrenchment of 1988 which came in response to price rises of 20 per cent and more.

The abrupt slowdown in economic activity in 1988-89 is cited as a main reason for the 1989-90 riots. Chinese leaders say they want to avoid repeating the same mistakes but economists worry that avoiding a slump as opposed to a soft landing (retrenchment without too much pain) may be easier said than done.

## Israel breaks pattern with 1.5% interest rate rise

By David Horowitz in Jerusalem

Israel's central bank yesterday departed from its longstanding policy of minor interest-rate rises by jacking up rates by a full 1.5 per cent to 14 per cent, in an effort to halt a surge in inflation.

The Bank of Israel move, which takes effect on Thursday, was immediately matched by a 1.5 per cent increase in prime rates at Israel's commercial banks.

The central bank had previously sought to slow price rises with a series of seven minor interest-rate increases in the past nine months, to no avail. Inflation, which the government had predicted would settle at around 6 per cent for 1994, is now running above 14 per cent. The Bank of Israel's governor, Prof Ya'acov Frenkel, described yesterday's move as "a pre-emptive strike" to ensure it did not spiral out of control. "Our goal is to return inflation to single figures," he said, "as in the industrialised world."

Key factors in the inflation surge include: the continuing rise in house prices - soaring by 20 per cent in some areas despite government efforts to free more land for building; a number of relatively high public sector wage settlements; and rising prices in the protected local fruit and vegetable markets.

Governor Frenkel indicated yesterday that he would have liked to order a sharp interest-rate rise some months ago, but had refrained because of concerns that Israel's economic growth would be harmed and unemployment rates lifted. Now, though, he said, there was a national consensus that the fight against inflation should be made a priority.

Indeed, apart from inflation - which rings particular alarm bells in Israel given the triple figure inflation blight of a decade ago - the economy is performing impressively. Annual growth is running at

more than 6 per cent, and jobless totals have been coming down: figures released last week by the Central Bureau of Statistics showed unemployment down to 7.5 per cent in the second quarter of the year, from 8.2 per cent in the January-March quarter.

In a reflection of that robust overall economic performance, the Tel Aviv stock market yesterday shrugged off the interest rate news, its general share index closing the day up 3.25 per cent at 179.94. Similarly, last week the market dipped only briefly following the government's announcement that it would be introducing a capital gains tax at the exchange, taking 10 per cent of real profits.

"The one-two punch of a new tax and a large interest rate hike could, ordinarily, have been expected to bring the market down," said one analyst. "But the sense is that the market is pleased to see the government taking the battle against inflation seriously."

## Saudi Arabia to boycott population conference

By Mark Nicholson in Cairo

Saudi Arabia, one of the world's strictest Islamic states, has decided not to send a delegation to next week's United Nations Conference on Population and Development in a move sure to stoke intensifying conservative Muslim opposition to the Cairo meeting.

UN spokesman in Cairo confirmed that Saudi Arabia had said it would not attend, but said Riyadh had not explained why. Around 20,000 delegates from up to 180 countries are due to attend the event, which opens next Monday and is billed as an attempt to formulate a sweeping but consensual world approach to the related issues of population growth and development.

Conference organisers say only Monaco, Liechtenstein,

Eritrea and the small Pacific island of Nauru had previously stated they would not participate.

Saudi officials were not available for comment. However, the kingdom - whose ruler King Fahd titles himself the "custodian of the two holy mosques" of Mecca and Medina - is sensitive both to its role in the Muslim world and also to powerful domestic conservative Islamic opinion.

As a measure of the latter, Sheikh Abdul-Aziz bin Baz, the kingdom's senior religious figure, yesterday called on Saudi Arabia to boycott the meeting. He said a meeting today of the kingdom's most authoritative religious committee would "denounce" the Cairo conference as "incompatible with the Islamic religion".

Sheikh bin Baz's comments and Saudi Arabia's decision

will further encourage conservative Islamic critics of the conference, who have grown increasingly vocal in recent weeks, notably in the host country itself.

Iranian officials have also cast the forthcoming conference in a religious light, condemning the draft UN text for promoting "sexual liberty" and committing Iranian delegates to making the final document compatible with Islamic law.

Extremist Islamic groups in Egypt joined the fray at the weekend, warning that all foreign visitors to the conference were "putting themselves in danger" by attending. They described the "population conference" as "a gathering of devils".

## TV people meter alarms Japan's networks

By Emiko Terazono in Tokyo

Times are tough for Japan's television networks. Advertising revenues have fallen for two consecutive years, the competitors - satellite and cable television - are getting stronger, and all this is happening as growth in the number of viewers has become stunted.

Now the networks face another headache: the people meter. Already used in the US and Europe, the people meter is the new television ratings system by AC Nielsen Japan, the Japanese arm of the US television rating and marketing group.

By providing more precise and timely information on who is watching what, the device can change the country's television advertising market, the second largest in the world at ¥1,589bn (\$10,050bn), by influencing programme schedules and advertising rates.

The concept of television viewer ratings and its use for advertising rates was brought to Japan by Nielsen in 1960. However, Dentsu, the largest advertising agency, and the leading networks set up their own ratings company, Video Research, two years later, which now holds a virtual monopoly in Japan. With the people meter, Nielsen wants to regain its foothold.

The networks are also damaging for the networks because they can give advertisers more bargaining clout in what is already a buyers' market. When the people meter was launched in the US in 1988, US networks, which offer ratings guarantees to advertisers, incurred sharp earnings falls because they were getting lower Nielsen ratings than they were used to.

Nielsen's announcement earlier this month of its plan to introduce the ratings system in Japan has triggered a flurry of activity from television networks. The commercial television networks' association last week demanded that Nielsen retract its plan, saying the group's credibility would be hurt if it failed to do so.

Mr Yasuhiro Urushido, an executive at a leading network and vice-chairman of the association's committee on individual ratings argues that the people meter had yet to be tested sufficiently. He also complains that a consensus had yet to be reached between the potential users of the system - the networks, advertisers, advertising agencies and the viewers.

However, corporate advertisers are behind the company. The Japan Advertisers' Association has given the people meter its endorsement. Corporations have become frustrated with the current ratings system based on households and supplemented by information on individual viewers based on diaries in which viewers list the programmes they watch.

Foreign advertising agencies, trying to break into the tightly guarded Japanese market, have also welcomed Nielsen's move to provide fast, target-group-specific data.

The household ratings system gives automated data from 3,600 households across the nation. However, the system fails to supply ample information to advertisers wishing to target a certain age or gender group. Meanwhile, the diaries, filled in by individual viewers for one week or more, rely on the memories of those who can bother to keep them up to date.

Nielsen's system requires every viewer to push a button on a machine on top of the television each time he or she watches television. Each member of a Nielsen family will have a separate button, and a host sensor which can detect the number of people in front of a television set will beep a warning if the number of buttons and viewers do not match.

The networks' association argues that the people meter still relies on the diligence of the viewers to press the buttons, adding that the reliability of the sensors are yet to be proven. It is unlikely, however, that opponents of the system can prevent Nielsen starting its service.

Although the networks say they will not allow advertising rates to be based on Nielsen's ratings, they cannot stop corporate advertisers from referring to the figures. An official of a top-rated advertising agency says: "Ratings are like a compass in the industry. The stronger and more widely used one usually wins."

## Southern Africa harnesses SADC as engine for growth

By Mark Suzman in Johannesburg

South Africa's Deputy President Thabo Mbeki yesterday handed over the country's new flag to Southern Africa Development Conference chairman Sir Ketumile Masire in Gaborone, Botswana, in a gesture that marked the start of a new era for the entire region.

The formal accession of South Africa to the now 11-member SADC means that the organisation, originally devoted to reducing its members' links to their southern neighbour, is now regarded as the vehicle with the best chance of driving the region towards growth. The shift follows years during which SADC has been politically opposed to, but dependent on, South Africa.

This spirit of co-operation between South Africa and SADC was by no means guaranteed. While most of the world rejoiced at the success of South Africa's elections earlier this year, the broader southern African community viewed the transition to democracy with mixed feelings.

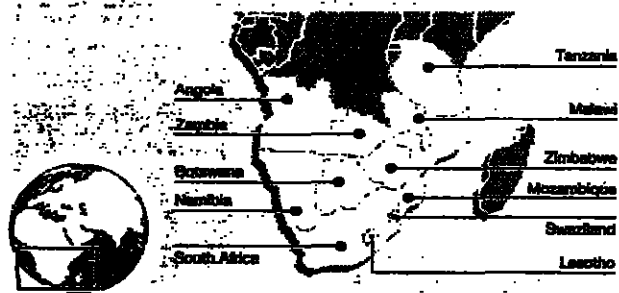
Although justifiably proud at their contribution to the overthrow of apartheid, many in the region feared that the African National Congress, once in power, might forget its debts, while South Africa's re-emergence on the global stage would divert much-needed aid and investment from its poorer neighbours.

But, despite such concerns, the new South African government has placed regional co-operation at the forefront of its emerging foreign policy. In parliament two weeks ago, Mr Alfred Nzo, foreign minister, made clear that promoting good relations with other southern African states would be a priority.

"South Africa will actively encourage the movement to create a new form of political and economic interaction in southern Africa," he said, while stressing his support for a new regional security mechanism that would complement SADC's economic activities.

The new approach is a marked contrast to South Africa's previous policies. As

SADC members



## Miners agree wage rise

South Africa's National Union of Mineworkers yesterday formally agreed on an average 9.75 per cent wage settlement for 1994-95 on behalf of 200,000 of its members, writes Mark Suzman.

The agreement forestalls the possibility of a strike in the industry, the country's largest. It has been widely praised by government and business figures as an encouraging sign for renewed economic co-operation with big business in the light of the high-profile strike by 25,000 workers in the motor industry, which is now

in its fourth week. The final pay settlements - which will lead to rises of between 8 and 8.75 per cent in wages for skilled gold miners, 8 to 10 per cent for unskilled gold workers and 9.75 and 13 per cent for coal miners - are above the inflation rate, currently at 7.5 per cent. But they are well below the NUM's original demands for 12-15 per cent increases.

Mr Juri Geldenhuys, president of the Chamber of Mines, said the agreement was testament to both sides' willingness to compromise.

the unquestioned regional superpower under former President P.W. Botha, the South African regime unabashedly used its economic and military might to prevent its black-run neighbours from successfully uniting in opposition to South Africa or helping to provide aid to the liberation movement.

By helping to foment civil wars in Angola and Mozambique and showing little hesitation in launching cross-border military strikes to try to destroy ANC bases in other countries, South Africa garnered a well-deserved reputation as regional bully. It was in response to such activities that South Africa's neighbours formed SADC's precursor, the Southern African Development Co-ordination Conference (SADCC), in 1980.

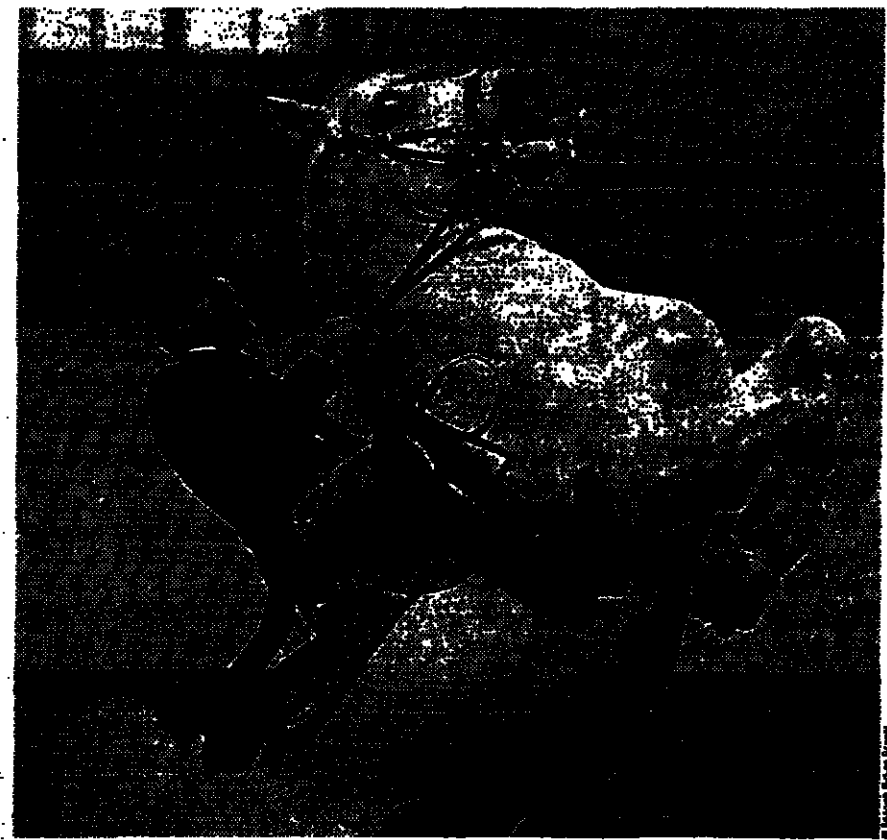
Despite its admirable aims, however, SADC proved unable to meet its objective of reducing its members' trade with South Africa. Not only

did nearly all its members actually expand their economic relationship with South Africa over the past decade; few of the organisation's initiatives to improve regional infrastructure yielded any fruit.

Now, however, the situation has changed drastically. Recognising the wider impact of political change in South Africa, the body renamed itself SADC in 1992, changing its primary focus from opposition to South Africa to economic development. And, with South Africa now a fully integrated member, the organisation is optimistic that it will finally be able to succeed in its goals.

Yesterday's SADC summit was preceded by a two-day meeting of regional trade ministers and it is through trade that the main thrust of economic development is planned. Recognising the need to establish competitive, export-oriented industries, SADC intends to devote itself to the establish-

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## NEWS: INTERNATIONAL

Conflicts have erupted worldwide. The oceans are 'in crisis', the UN has been told

## Fleets fight in over-fished waters

By Brown McDodd  
in New York

Ten Taiwanese fishing vessels impounded by Indonesia, British fishing vessels slashed in the Bay of Biscay, Japanese fishermen shot at by a Russian gunboat, and an Icelandic trawler and Norwegian coastguard vessel exchanging fire - in the past month, fish have been prompting diplomatic incidents and this shows no sign of ending soon.

Fears are growing that over-fishing is depleting even the most abundant species, while governments have so far failed to agree on ways to halt disputes. Canada, which has suffered some of the sharpest recent declines in its fish stocks, told a United Nations conference this month in New York that the oceans were "in crisis". However, the conference, attended by more than 90 governments, ended on Friday

night without consensus on how to conserve the seas' resources.

Nearly 30 separate conflicts have flared in the past year over rights to fishing. The catalyst for the disputes is the amounts of fish caught appear to be declining in the past few years, following four decades of explosive expansion.

According to the UN Food and Agriculture Organisation, catches have risen more than fourfold from 1950 to a peak of more than 90m tonnes in 1989. But although precise figures are hard to establish, there are signs that worldwide catch levels have since dropped by several per cent.

That halting of the industry's expansion, many fear, reflects the growing scarcity of many types of fish. Environmental groups paint a vision of the oceans in the next century as a desert. Western countries may see staples of the kitchen

onboard such as tuna become expensive delicacies, they warn.

Asian and African governments are also becoming alarmed: fish accounts for between a fifth and a third of the animal-derived protein in their countries' diets, UN figures suggest, compared to only several per cent of those in Western countries.

Scarcity of some species has forced fishermen and consumers to turn to new types of fish. According to Greenpeace, while catch levels rose by a third during the 1980s, almost all of that rise came from just five species: Alaskan pollock, Chilean jack mackerel, Peruvian anchovies, and Japanese and South American pilchards.

The huge increase in the catch of fish since the 1950s has been driven partly by new technology. Fishing fleets home in on schools of fish using sonar and radar.

Winches and motors to haul drift nets, which can contain more than 40,000 pounds of fish, have become more powerful, while nets have become longer, with the inclusion of nylon fibres which reduce tearing. Nets now frequently have mouths tens of metres wide, and can stretch for hundreds of metres.

But environmentalists also attribute some of the increase in catch levels to the changes in international fishing regulations more than a decade ago. The 1982 Law of the Sea pushed the boundaries of national waters outwards from 12 miles offshore to 200 miles.

The new rules, which brought more than three quarters of the world's fish within national waters, was followed by a doubling of the size of the world's fishing fleets, according to the UNFAO. Overcapacity - the total number of vessels is estimated at some three

million - has pushed many parts of the industry into loss. According to the UNFAO, fishing fleets spent some \$200m in 1989. Revenue figures are hard to establish with precision, but UN figures and industry analysts suggest that they amounted only to some \$70m.

Much of the shortfall is plucked by billions of pounds in government subsidies. European Union countries alone spend nearly \$600m a year, according to UN estimates. Countries fear that if they surrender national fishing rights they could lose tens of thousands of jobs. There is no shortage of examples to fuel their anxiety. At least 20,000 people working in the traditional cod fisheries of Newfoundland have been put out of work since the Canadian government banned fishing in 1992 in an attempt to boost depleted stocks. The government has since paid more than C\$1bn

(\$400m) to support these communities.

The bitterest international rows in the past year have focused on "migrating" fish such as tuna and swordfish which travel thousands of kilometres through the high seas to feed and spawn. The past year's disputes have also included rights to "straddling" fish such as cod, herring and some types of squid, which migrate between coastal and international waters.

Mr Satya Nandan, Fiji ambassador to the UN and chairman of the conference, said last week that the required backing of two-thirds of the delegates should be achievable as "the overwhelming majority want a binding solution". Governments meet again in six months time. If the frequency of conflicts stays at its present level, they will have every incentive to overcome those differences.

## Spanish fleet goes to war over drift-nets

By David Gardner on the Spanish Basque coast

A thin curtain of drizzle, mist and diesel fumes hung over the wharf at Bermeo when dawn broke on Friday as the largest fishing fleet on the Basque coast hoisted from its holds its diminishing catch of Bay of Biscay tuna, the prized *bonito*.

The mood was sullen and aggressive. Posters and fly-sheets along the quay, and lapel badges throughout the Basque Country, proclaimed why "Bolantrik Er". No to the drift-nets - used by France's (often French Basque) fleet, with which the Spanish Basques have been skirmishing at sea since the Biscay *bonito* season opened in June.

"If this is not settled soon," says Mr Jose Manuel Gabantxo, president of the Bermeo *Cofradia* or boat-owners association, "then that's it: we're going to war. There could well be deaths and sinkings." Mr Gabantxo forecasts confrontation in October unless European Union fisheries minister agree to ban drift-nets at their meeting in Brussels on September 28.

The latest chapter in this six-year old conflict began in mid-July when trawlers from the Basque Country and Galicia surrounded a French vessel using a 5.7km drift-net - more than twice the standard EU limit - and forced it into a Spanish port.

Drift-nets, increasingly banned internationally, are mesh walls up to 20km long which indiscriminately entrap undersea life in their path. They scoop up the *bonito* effectively and cheaply as it migrates into the Biscay gulf in the second half of each year.

But much of the drift-net catch is undersize, thereby depleting the spawning stock which renews the shoals; an unquantifiable amount slips dead out of the nets; and great hauls of other species, including dolphin and blue shark, come up, to be thrown back into the sea.

"If we don't get rid of drift-nets now, the French will have killed off the fish stocks within four to five years, and this town will die," says Mr Gabantxo. But before that, he vows, "we will burn their lorries for as long as it takes, and the Spanish authorities know it".

Drift-nets, brought to Europe from the far east, allow the French to capture three times as much per boat as Spain's northern fleet, while using half the crew. Spain, meanwhile, is by far Europe's biggest consumer of fish. And its (mostly Basque) fish processors provide the main market for the fish caught by drift-nets.

The *bonito* are caught by rod, using live bait, or by *carrión*,

a series of trawled lines with lures. The fish caught tend to be mature, fresh and whole, whereas drift-net tuna often lose their skin and turn black because of the long churn through the water.

"These are methods which require a lot of people and a lot of professionalism," says Mr Leo Belausagui, a fisherman of 30 years experience from Motrico, who points out that *bonito* crews habitually work 18-20 hours a day when at sea.

As a result, France had largely given up on Biscay tuna. But its southern Atlantic fleet was revived by the drift-net and the access to traditional Spanish fishing grounds conceded when Spain joined Europe in 1986. Five years ago, the Spanish Basque fleet landed 23m tonnes of *bonito* against 14m tonnes last year. France has in the same period climbed from virtually nothing to 7m tonnes.

"They're more profitable, but for how long?" asks Mr Gabantxo, whose *Cofradia* dates from the 14th century. "They say we're out of date, but with our traditional arts we have a future, which is better than exhausting the stocks in five years. The sea has to have continuity."

Support has come from across Spain: from ecologists, fish markets, housewives groups, neighbourhood and consumer associations, trade unions, and political parties scrambling on to the bandwagon. ETA, the armed Basque separatist group, sent a populist cause it can hijack, wrote to the *Cofradías* in April offering to intervene. The Basque autonomous government, Madrid and Brussels have all had to react.

The main result so far is that from Thursday, tuna caught by traditional means will have a green aluminium logo clipped on the tail. This could be a useful marketing ploy. But for the foreseeable future it will not fill the gap in supply which sucks in imports from France.

Mr Gabantxo counters that supplies will diminish anyway if drift-netting continues, and if any gap should be filled with tropical tuna (which the Basque processing industry is already investing in).

But Mr Belausagui, recently appointed a full-time union official in the port of Ondarroa, says: "The problem is not what method you use, but how you use it, and in particular how to create better working conditions while you conserve fishing stocks." If smaller, modified nets were used more discriminately, he asks, "maybe you can catch 20,000 kilos in 10 days instead of 20. The question then is are you going to be forced to work another 10 days for another 20,000?"

## Japanese run gauntlet of Russian bullets

By Gordon Cramb in Tokyo

When Russian coastguards fired on a Japanese fishing boat this month, wounding a crew member in his move to impound the vessel, the incident provided a reminder of a territorial issue unresolved for 49 years.

It also indicated recent problems tempting Japanese fishermen into waters around the disputed Kurile Islands, which they would otherwise avoid. Not only has Japan's ocean catch been declining, but the stronger yen has made seafood imports more competitive.

The ship belonged to the main fishing co-operative in Nemuro, north-eastern Japan, from where the Kurile chain arcs towards Siberia. The four islands nearest Japan were seized by the Soviet Union as the Pacific war ended.

Mr Yohel Kono and Mr Andrei Kozayev, the countries' foreign ministers, are expected to discuss the Kuriles when they meet at the UN in late September. A lower-level Japanese delegation is due next week in Sakhalin, from where the disputed islands are administered, amid suggestions of a proposed interim solution to the fishing problem.

This would involve setting up an ostensibly private sector fund, the stated purpose of which would be environmental: to preserve marine resources in the region. In reality, it would channel revenue to Russia while allowing the boats of Nemuro and nearby ports to fish more widely in Kurile waters without making themselves a target for Russian bullets.

The Sakhalin administration is, however, conducting parallel negotiations with South Korea which, if Seoul bids higher, could accord its ships preferential access.

Imports of marine products into Japan have risen 36.2 per cent by volume in the last five years. Although these include frozen and processed foods, they were equivalent last year to nearly half the 7.2m tonnes Japanese sea catch, which has fallen 30.8 per cent over the same period.

The Nemuro fishermen's association says the problem centres not so much on de-stocking of its waters but on cheaper imports, as well as the banning of certain types of net, and an almost one-third cut over five years in its salmon and trout quota under one of the few existing agreements with Russia. Its overall revenues have been halved since their early-1980s peak.

The Nemuro co-op, which runs some 3,000 mostly small vessels, has sought to compensate by going for higher-value seafood such as crab. As the crustaceans are less prevalent near its own shores, this means entering shallower waters around the islands.

While Russia tolerates deep-water fishing within 200 miles of its coastline, it rigorously enforces a 12-mile territorial zone and made clear this spring it would clamp down on poaching there.

An infringement of this zone ensnared a Nemuro ship a fortnight ago. One of its half-dozen crew, who now face trial, had an operation on the bullet wound. The shooting, which followed a similar incident late last year, triggered a Japanese embassy protest to the foreign ministry in Moscow.

So far this year Russia has detained 49 Japanese fishermen, up from 43 in the whole of 1993. Fall terms of a year or more are common.

## Troubled waters: fishing disputes, clashes, poaching and piracy over the past year

- 1 US/China: Former fishermen's letter with possible trade sanctions over failure to bring fishermen into line with United Nations drift-net ban
- 2 Alaska: US fishermen set up blockade in support of demands for greater compensation following poor pre-winter seasons due to the Exxon Valdez oil-spill disaster
- 3 Ecuador: Conflicts within national industry between commercial operations and traditional small-scale fishing
- 4 Caribbean: Poaching by the region's local industry and illegal fishing by Japan, Russia, Taiwan, US and Venezuela
- 5 Patagonian Shelf: Illegal fishing by Taiwanese and South Korean; Argentinean gunboat sinks Taiwanese vessel after hot pursuit
- 6 South Georgia: Illegal fishing by Russians and Chileans in 200-mile zone
- 7 US/France: Former accuses letter of refusing to honour international agreements to conserve bluefin tuna
- 8 Flemish Cap/Greenbanks: Canada arrests the Kristina Logos, with Portuguese crew sailing under Panamanian flag, for fishing banned sizes of flounder, cod, plaice and redfish



- 9 ICCAT areas: Stock depletion from over-fishing by ICCAT members and from illegal fishing by non-parties to ICCAT, the international agreement to protect Atlantic tuna stocks
- 10 Senegal: Local industry protests that it is threatened by illegal fishing by European Union vessels
- 11 Ireland: Irish accuse Spain of illegal fishing in European Union conservation zone
- 12 Bay of Biscay: British, French and Spanish fishermen in dispute, sometimes violently, over methods used to catch tuna
- 13 Channel Islands/Fleets of Solli: Disputes between British and French lead to French trawlers being excluded from rich lobster and other shellfish grounds
- 14 Scotland: Fishermen attack Russian trawler, destroying £250,000-worth of cod
- 15 Strait of Malacca: Malaysia confiscates illegal aerial trawlers
- 16 China/Vietnam: Long-standing dispute over rights exacerbated by Vietnamese arrests of Chinese vessels; each accuses the other of illegal fishing
- 17 Indonesia/Taiwan: 10 Taiwanese boats with 100 crew detained for allegedly fishing with improper licences
- 18 China/Taiwan: Poaching and piracy by both, reports of violent clashes leading to injuries and sometimes deaths
- 19 Present Hole: Russia fires at Japanese trawler for encroaching into its Exclusive Economic Zone
- 20 New Zealand: Dispute with foreign fleets over bluefin stocks, especially over Japanese fishing
- 21 Chatham Rise: New Zealand protests against illegal fishing, especially off Chatham Rise, also accuse American and Russian vessels in hot fishing
- 22 North Pacific: St. North Pacific Anomalous Fish Commission vessels alleged off-limiting illegally
- 23 Bering Sea: Poaching by non-parties to international agreements; South Korea and Taiwan especially criticised
- 24 Doopt Hole: Russia accuses US of illegal fishing in Bering Sea; China, Japan and South Korea also reportedly involved in illegal operations

## Asian fleets roam in search of bluefin tuna

By Terry Hall in Wellington and Nikki Tait in Sydney

Claims by environmentalists that New Zealand's valuable deep water fisheries are being over-exploited has led to a row with the government and fishing companies over the future of the NZ\$1.2bn (\$469.5m) export industry.

Last week, environmental group leaders stormed out of a special conference called by fisheries minister Mr Doug Kydd on the future of the industry. The government is trying to put in place a new control mechanism which will give the fishing companies more say in establishing sustainable quotas.

One of the most prominent issues in the region is the chronic over-fishing of southern bluefin tuna. Until the late 1960s the fish were plentiful, but then a global decline became apparent as Japanese companies increased their presence in the region.

Today, after intensive negoti-

ations, the fishery is managed under a bilateral quota system between Australia, Japan and New Zealand. Japan pays an access fee to Australia, allowing it to catch part of its quota in Australian waters.

A big remaining worry is the rate and price at which the large Asian fishing nations, notably Japan, Taiwan and South Korea, are harvesting tuna in the 20m square kilometres of ocean controlled by the Pacific Island countries.

This area provides around 50

per cent of the Japanese tuna catch. The Rongara-based Forum Fisheries Agency has calculated that access fees paid by the big Asian countries under bilateral agreements were only A\$74m (\$25.2m) in 1993, while the market value of tuna taken from Pacific waters was more than A\$5bn.

Given the importance of revenue from fisheries access to some of the island economies - it accounts for 40 per cent of Kiribati's gross domestic product for example - deals struck

under bilateral arrangements look low. The problem, moreover, may be compounded by significant under-reporting of catches from these waters.

Accordingly, there is a push, encouraged by Australia, to get the South Pacific nations to take a multilateral approach. A communiqué coming out of the South Pacific Forum, an annual meeting of island nation leaders, approved the idea in principle this month, and fisheries ministers are due to meet later this year.

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## Falklands rivalry tests quick tempers

Diplomats in Buenos Aires must learn the mating and migratory habits of squid, writes John Barham

Argentina reacted furiously when the UK announced a seemingly innocuous decision to extend control over a 547 square mile patch of ocean outside fishery control areas around the Falkland Islands.

The Argentinians declared they would not "tolerate, accept and much less consent" to the move.

The UK claimed poachers used this so-called "Gap" area as a hole-hole. Even though the Gap lies within Falklands territorial waters, British officials say they tried to discuss the issue with Buenos Aires all year. The Argentinians kept postponing talks and the British decided to act unilaterally.

President Carlos Menem angrily said he would send patrol ships into the Gap, even though it lies outside Argentina's 200-mile territorial limit.

Although he played down the issue later in the week, the Falklands remain a contentious and sensitive issue.

British diplomats posted in Buenos Aires must master the intricacies of fishing data and develop a thorough understanding of the mating and migratory habits of Illex squid, the islands' main resource.

They swap catch data, establish quotas and keep each other posted about the position of poachers.

Although Falklanders sneer at Argentina's inability to patrol its waters effectively, the coast guard is notoriously aggressive. Trigger-happy captains often pepper poachers with gunfire.

Last May, a Taiwanese ship sank after fleeing into Falkland waters when a coast guard cutter fired on it. Licence sales are a vital revenue source for the Falklands. This year's fish licence sales of \$24.1m make up nearly two-thirds of government revenues. However, this is a far cry from the boom years of the 1980s. In 1989, the islands raked in a record \$28.8m from fisheries. Next year, the islands do not expect to sell more than \$16.5m worth of licences.

The main reason for this is competition from Argentina which recently launched a rival licence regime of its own, selling 60 licences this year, priced to undercut the Falkland licences.

Furthermore, this year's Illex season was exceptionally bad. Ships caught only 67,000 tonnes in Falklands waters against an historical average of 185,000 tonnes. Both Argentina and the islands closed the Illex season early to preserve the stocks.

In addition, a fisheries agreement between Argentina and the European Union has led to a big increase in catches.

The pact allows European vessels to enter Argentine waters once closed to foreign ships in exchange for grants and privileged access to EU markets. Brussels wants to find new fishing grounds outside European waters, mainly to benefit Spain's big fishing fleet.

In 1993, 915,500 tonnes of fish were caught in Argentine waters, 126 per cent more than five years earlier. Although these statistics are not reliable, they do indicate a rising trend in fishing effort.

Argentina now exports more fish than beef. Fish export revenues last year rose 18 per cent to \$660m.

Hake accounted for nearly half Argentina's 1993 catch of 422,000 tonnes, an increase of 14 per cent over 1992. Squid volumes rose 150 per cent to 194,000 tonnes.

But Mr Julio Torre, the editor of *Redes*, a fishing trade publication, warns: "Catches are reaching their limits for several species, especially hake. Blue whiting and squid are also approaching their limits. For the first time, this region is reaching its limit."

Although fishing has become a big earner for Argentina, its under-funded and overstretched navy, air force and coast guard are unable to prevent poaching.

It is anyone's guess how much fish is really caught in the South Atlantic.

## INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of money and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES						JAPAN						GERMANY					
Year	Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)	Year	Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)	Year	Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)
1985	9.0	8.9	8.00	10.59	11.8	1985	5.0	5.3	6.02	6.51	6.8	1985	4.4	5.1	5.45	6.94	n.a.
1986	13.5	8.3	6.49	7.87	3.45	1986	8.9	9.2	5.12	5.85	6.84	1986	9.9	8.7	4.84	5.90	1.79
1987	11.6	6.5	6.82	8.39	3.12	1987	10.5	11.5	4.15	4.84	5.55	1987	9.0	7.3	4.05	6.14	2.21
1988	4.3	5.2	7.05	8.84	3.91	1988	8.4	10.4	4.43	4.77	5.04	1988	9.8	8.4	4.34	6.48	2.61
1989	1.0	3.9	5.89	8.39	3.43	1989	4.1	10.8	5.31	5.22	4.48	1989	6.3	5.7	7.11	6.84	2.22
1990	3.7	5.3	8.06	8.54	3.80	1990	8.5	7.62	4.51	4.91	6.85	1990	4.5	4.5	6.92	8.71	2.11
1991	5.9	3.3	5.87	7.85	3.21	1991	6.2	7.21	6.37	6.37	6.75	1991	5.1	5.8	9.25	8.44	2.26
1992	12.4	2.4	3.75	7.00	2.86	1992	4.5	-0.4	4.28	5.25	1.00	1992	7.0	8.2	9.52	7.77	2.45
1993	11.6	1.1	3.22	5.86	2.78	1993	3.0	1.4	2.63	4.18	0.87	1993	8.4	7.8	9.28	6.44	2.11
3rd qtr.1993	12.2	1.4	3.18	5.81	2.76	1993	3.3	1.9	2.83	4.25	0.80	1993	9.9	8.1	8.82	6.34	2.01
4th qtr.1993	10.5	1.4	3.34	5.59	2.73	1993	3.5	1.4	2.14	3.57	0.75	1993	8.6	7.5	6.34	5.83	1.78
1st qtr.1994	9.8	2.2	3.52	6.06	2.75	1994	4.7	1.9	2.05	3.88	0.82	1994	11.1	11.6	5.88	5.83	1.75
2nd qtr.1994	7.5	2.1	4.40	7.07	2.90	1994	5.2	1.5	2.07	4.05	0.78	1994	11.3	11.6	5.28	6.71	1.72
August 1993	12.2	1.3	3.18	5.88	2.78	1993	3.5	1.7	2.93	4.27	0.78	1993	10.1	8.3	6.82	6.34	1.98
September	11.7	1.4	3.18	5.85	2.73	1993	3.7	1.8	2.48	4.09	0.79	1993	9.5	7.3	6.83	6.12	1.98
October	10.9	1.1	3.26	5.82	2.71	1993	3.7	1.8	2.30	3.85	0.80	1993	8.2	6.4	6.84	5.93	1.88
November	10.4	1.4	3.40	5.70	2.74	1993	3.3	1.5	2.22	3.84	0.84	1993	8.4	7.3	6.31	5.98	1.82
December	10.1	1.7	3.35	5.74	2.74	1993	3.4	1.4	1.90	3.35	0.85	1993	8.1	8.8	6.11	5.71	1.82
January 1994	9.7	2.0	3.20	5.71	2.72	1994	4.2	1.8	1.98	3.34	0.85	1994	11.8	11.4	5.80	5.63	1.71
February	10.0	2.1	3.49	5.87	2.74	1994	4.8	1.5	2.05	3.80	0.80	1994	11.0	11.9	5.91	5.87	1.77
March	9.8	2.5	3.84	6.47	2.80	1994	5.2	1.3	2.13	4.08	0.79	1994	10.5	11.4	5.84	6.27	1.70
April	9.7	2.7	4.06	6.64	2.91	1994	5.0	2.2	2.13	4.03	0.80	1994	11.8	10.8	5.81	6.43	1.88
May	7.0	2.1	4.54	7.17	2.91	1994	5.2	1.7	2.08	3.78	0.78	1994	11.2	10.8	5.80	6.63	1.87
June	6.5	1.7	4.57	7.09	2.89	1994	4.7	1.5	2.01	4.24	0.72	1994	11.3	10.7	5.07	7.05	1.80
July	8.2	1.9	4.75	7.28	2.91	1994	6.7	1.8	2.02	4.32	0.73	1994	9.7	9.97	6.80	7.07	1.75
■ FRANCE						■ ITALY						■ UNITED KINGDOM					
Year	Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)	Year	Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)	Year	Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)
1986	6.2	7.4	10.03	11.74	n.a.	1986	12.2	13.5	14.54	15.71	n.a.	1986	4.7	13.2	12.92	11.03	n.a.
1987	6.9	6.8	7.79	8.74	2.65	1987	10.4	11.4	10.40	11.41	1.40	1987	4.7	15.3	11.22	9.97	4.36
1988	4.1	8.9	6.28	8.46	2.75	1988	9.8	11.32	10.58	11.94	0.87	1988	4.0	14.8	11.32	10.77	5.22
1989	3.9	8.5	7.94	9.08	3.69	1989	7.8	6.9	11.24	10.84	2.71	1989	4.8	17.0	10.41	9.89	4.48
1990	7.5	9.3	9.39	5.79	3.82	1990	7.1	8.2	8.24	8.24	2.45	1990	5.8	17.5	13.96	10.30	4.36
1991	3.8	9.2	10.22	5.92	3.19	1991	9.3	8.1	11.88	11.81	2.84	1991	5.4	16.1	14.82	11.53	5.07
1992	-4.9	2.7	10.82	9.09	3.58	1992	7.3	8.0	11.83	13.20	3.45	1992	5.0	11.58	10.94	10.94	5.07
1993	-0.2	5.5	10.96	9.57	3.55	1993	7.5	7.3	13.86	13.29	3.83	1993	2.4	8.1	9.73	9.09	4.91
1994	-1.3	-1.7	13.1	6.57	3.75	1994	4.4	7.0	10.22	11.23	2.35	1994	4.8	3.8	5.99	7.40	4.01
3rd qtr.1993	-0.7	0.5	7.74	8.38	3.14	1994	4.9	7.8	10.88	10.27	1.89	1994	5.3	3.6	5.86	7.13	3.91
4th qtr.1993	-1.3	-1.7	8.74	8.82	3.01	1994	7.1	7.1	8.82	9.10	2.02	1994	5.5	4.3	5.81	6.81	3.75
1st qtr.1994	3.0	-4.3	8.29	5.89	2.85	1994	7.3	7.6	8.42	8.99	1.80	1994	5.5	5.4	5.81	6.72	3.57
2nd qtr.1994	3.8	-3.2	5.73	7.03	2.87	1994	9.3	7.5	7.98	9.84	1.54	1994	5.6	5.3	5.79	6.72	4.00
August 1993	-1.3	0.6	7.93	6.32	3.06	1993	5.2	8.0	9.56	10.08	1.83	1993	5.5	3.6	5.91	7.00	3.85
September	-0.7	0.5	7.29	6.13	3.08	1993	8.1	8.7	9.18	9.68	1.85	1993	5.5	3.5	5.91	6.81	3.81
October	-0.2	0.6	6.85	6.06	3.04	1993	5.6	8.0	8.67	9.04	1.94	1993	5.4	3.7	5.83	6.81	3.81
November	-1.5	-1.1	6.74	6.02	3.07	1993	5.4	7.8	8.82	9.34	2.15	1993	5.4	3.5	5.93	6.77	3.84
December	-1.3	-1.7	6.52	5.79	2.94	1993	5.5	7.8	8.27	8.94	1.97	1993	5.5	4.8	5.44	6.28	3.81
January 1994	2.1	-2.9	6.21	5.66	2.82	1994	5.9	6.5	8.44	8.89	1.88	1994	5.5	4.8	5.44	6.22	3.86
February	2.7	-3.9	6.30	5.93	2.81	1994	7.1	7.8	8.37	8.78	1.74	1994	5.2	5.4	5.37	6.27	3.81
March	3.0	-4.0	6.26	6.37	2.90	1994	8.5	8.4	8.49	9.48	1.77	1994	5.5	5.4	5.37	6.27	3.81
April	5.8	-3.8	6.01	6.85	2.89	1994	10.4	10.5	8.1	9.07	1.58	1994	6.7	5.7	5.23	7.29	3.74
May	1.9	-4.3	5.85	6.94	2.88	1994	9.4	7.2	7.80	8.38	1.49	1994	6.0	5.8	5.29	7.69	3.87
June	3.8	-3.2	5.57	7.48	3.14	1994	7.8	6.7	8.03	10.46	1.57	1994	6.9	5.8	5.22	8.13	3.86
July	5.5	5.65	7.35	8.09	3.09	1994	8.3	8.43	10.70	1.54	1.65	1994	5.5	4.8	5.29	8.38	4.11



# Mobiles overtake fixed phones

By Andrew Adonis

Mobile phones are enjoying such a boom in the UK that new cellular phone connections are racing ahead of connections to traditional fixed phone networks.

The net number of new connections to mobile networks overtook fixed network connections to British Telecom and the cable TV companies last December, on a surge of pre-Christmas mobile phone buying.

Analysts expected that after Christmas the mobile phone tide would ebb. But the cellular industry has stayed ahead every month this year except January in what is clearly a significant turning point for the telecommunications industry.

The UK's four cellular networks have about 2.6m subscribers compared with BT's 2.6m and about 500,000 for the cable companies. On current trends, the gap between numbers of subscribers on fixed and mobile networks will progressively narrow, in spite of sustained growth in the number of fixed-line connections.

It took the UK's cellular operators eight years from their launch in 1985 to attract their first 1.4m customers. The number of subscribers has almost doubled since the start of 1993, with the increase running at more than 50 per cent a year.

The figures reflect a change in the perception of mobile phones, which are no longer seen as the plaything of well-off yuppies.

Recent advertising campaigns by the mobile operators have been pitched at mainstream consumers, and one of the four networks - Mercury One-2-One - claims to be in direct competition with BT by offering free local mobile phone calls on its networks in the evenings.

In reality, all the mobile networks are vastly more expensive to use than their fixed counterparts, when allowance is made for monthly subscriptions of up to £28.75 and the high cost of phone calls, handsets and initial connection.

However mobile prices are falling rapidly, with call charges down by as much as a third over the past year and handsets widely available for less than £100.

Competition is also intensifying, with two new networks - Orange and One-2-

One - being launched in the past year to compete with established operators Vodafone and Cellnet.

BT, which has a 60 per cent stake in Cellnet, is now adding new mobile customers more than two-thirds as fast as it is gaining fixed-line subscribers.

With nearly five million subscribers per 100 people, the UK boasts a higher density of mobile phone users than any other European country outside Scandinavia, where the figure is about 10 in 100.

However, the same trend is evident across Europe. According to the FT's mobile communications newsletter, the number of mobile phone users has risen by 60 per cent across western Europe in the past year, with more than 4m new subscribers added to networks.

## Britain in brief



### Hume looks beyond IRA ceasefire

Mr John Hume, leader of the mainly Catholic Social Democratic and Labour Party, yesterday called for talks with Sinn Féin, the IRA's political wing, to begin as soon as possible after a genuine end to IRA violence.

As speculation continued to mount that the IRA may be about to call a general ceasefire, the air of optimism was reinforced by Cardinal Cahal Daly, leader of the Irish Catholic church, who said Northern Ireland could be on the brink of the best opportunity for peace in 25 years.

But the mood was dampened by unionist leaders who voiced fears that Britain might be preparing to make concessions in return for a ceasefire.

Mr James Molyneux, the Ulster Unionist party leader, is likely to raise such concerns with Mr John Major at a meeting expected to be held in a few days. Downing Street said last night however that there was no guarantee this meeting would take place this week.

### Last-minute shipyard talks

Mr Roger Freeman, defence procurement minister, yesterday invited the sole prospective bidder for Swan Hunter, the Tyneside shipbuilder in receivership, to last-minute talks about its future.

Mr Freeman said he was very disappointed that Constructions Mécaniques de Normandie had rejected the MoD's latest proposals, concerning the price at which Swan's existing MoD frigates contract would be transferred to CMN.

The MoD said: "Mr Freeman hopes that in the interests of the future of the yard, CMN will be prepared to meet him shortly."

Speaking from St Tropez yesterday evening Mr Iskandar Sefa, principal shareholder in CMN's parent company, Sofia, said he was willing to take up Mr Freeman's offer of a meeting but would first reach a decision on whether to pursue his acquisition of Swans.

### Firms plan to relocate

More than a fifth of UK companies expect to relocate in the next five years, with Bristol, Edinburgh and Nottingham the top three choices for businessmen planning a company move, according to a survey published today.

Wigan, Sunderland, Bradford, Liverpool and Belfast were the least popular of the 40 cities considered by companies.

London ranked 18th behind Manchester, Birmingham, Leeds and Newcastle-upon-Tyne.

The survey, by Black Horse Relocation, part of Lloyds Bank, and Management Today magazine, received responses from chairmen, chief executives and other senior directors of 536 companies. Ten companies had annual turnovers of more than £100m and four employed more than 5,000 staff.

### Doctors oppose pay changes

Doctors will step up opposition to proposals for performance related pay in the National Health Service at a special conference in London tomorrow.

The British Medical Association has called representatives from every hospital in the country to the meeting, to discuss an issue that is bringing the medical profession into renewed confrontation with the government.

Ministers have declared that a shift from the NHS's centralised pay structure to locally determined, performance based pay must start this year.

But the BMA regards the timetable as "unacceptably short" and the principle of performance pay as "totally inappropriate to the work of the medical profession".

### Mining assets sale attacked

The government is attempting to sell "worthless mining assets" to prospective buyers of British Coal, according to an industry newsletter published today.

Coal UK, a Financial Times publication, says the Department of Trade and Industry has included opencast assets in the sale which were refused planning applications and appeals some years ago.

The worst affected of the five regions being put out to tender is central north, where 80 per cent of what the DTI has described as "fully proven" opencast reserves have failed to gain approval for exploitation in the past, according to Coal UK.

The south Wales region includes Colliers' Row, which Coal UK says was notorious as the only site to have been refused planning permission by an energy secretary after it had gained all other necessary permissions.

### Review of Lady Archer's role

Lady Archer will not be "precipitately" removed from the Anglia Television board, following disclosures about share orders placed by her husband, Lord Archer, according to a director of MAI, which bought the company in January.

However, MAI is reviewing her actions in the days prior to the January 18 public announcement of its takeover of Anglia. Directors want to reassure themselves that she followed normal corporate procedures, as laid down in Stock Exchange rules and the Companies Act, relating to spouse's share dealings and the protection of confidential price sensitive information.

Her husband, a former Conservative Party deputy chairman, placed orders to buy 50,000 Anglia shares on January 13 and January 14, netting an £80,000 profit for an acquaintance, Mr Brook Saib, when they were sold on January 18. Lord Archer's share orders were investigated by Department of Trade and Industry inspectors. The DTI last month decided to take no further action against Lord Archer.

## Hospitality plan floated for royal yacht

By Robert Peston

The royal family will only have a new yacht to replace Britannia if big companies are prepared to use it for corporate entertaining, according to a joint letter from the Department of Trade and Industry and Foreign Office, which has been leaked to the Financial Times.

The letter, from Ray Mungay, director-general of export promotion at the DTI, asks the chairmen of big companies whether they would rent a new yacht for "promoting your products to potential buyers, receiving potential foreign buyers and signing ceremonies for prestigious contracts".

An almost identical letter from another official, also explicitly lists "entertaining foreign business partners and potential partners" as a use.

Mr Mungay continues: "The President of the Board of Trade [Mr Michael Heseltine] has asked that assessment of potential demand for a replacement yacht be kept discreet and be completed quickly. Replies are requested by mid-September."

The private sector can currently use Britannia during "sea days", when the boat is

used as part of government-sponsored export initiatives.

But the letter says that any replacement would be run on more stringent commercial lines. Sent on the instructions of Mr Heseltine, it says "the charge for hiring the yacht would be required to recoup a proportion of the running costs." The letter estimates these running costs at £5m a year.

Companies would pay less if the boat were moored in the Pool of London than if they hired it for a "sailing event" or for sending it to "an overseas moored event".

The government is currently deciding whether to spend an estimated £60m on buying a new yacht to replace Britannia, which is due to be decommissioned in 1997.

Though the DTI and the Foreign Office want the government to make the investment, they are meeting stiff opposition from the Treasury.

Access to the new yacht would be restricted to "prestigious companies", so that its "exclusivity" will be preserved.

One chief executive said: "I think it's a marvellous idea. The royal yacht would be the glitziest corporate hospitality venue in the world."



One of many colourful costumes seen at the weekend's Notting Hill Carnival in London. (Photo: Associated Press)

## Carnival flavour in west London

Around a million people, packed into west London yesterday for the final day of the Notting Hill Carnival, claimed by organisers to be Europe's largest annual street festival.

Police said they expected at least 800,000 people to crowd into the area - four times as many revellers as visited the carnival on Sunday.

The carnival, now 29 years old, was founded by Trinidadians and modelled on the famous carnival in Trinidad at the start of Lent. The budget for the carnival organisers is around £250,000, while last year's budget for policing was in excess of £3m.

● Six people were taken to hospital with whiplash injuries today following an accident on the Avalanche funfair ride at Blackpool's pleasure beach in northern England.

The accident comes just weeks after more than 20 people suffered slight injuries in an accident on The Big One, the world's highest and fastest roller coaster, also in Blackpool.

## WP=E<sup>2</sup>

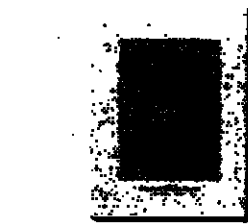
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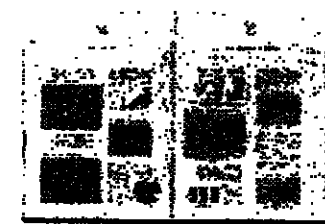
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Figures (Rs. in millions)		
Particulars	Year Ended 31.03.1994	Previous Year Ended 31.03.1993
Net Sales	441.386	285.640
Other Income	30.214	10.013
Total Expenditure	318.306	265.545
Interest	9.289	6.888
Gross Profit before Depreciation & Taxation	144.025	80.440
Depreciation	9.133	5.461
Provision for Taxation	134.892	74.579
Net Profit	180.233	96.567
Paid-up Equity Share Capital	799.253	99.826
Reserves (Excluding Revaluation Reserve)		

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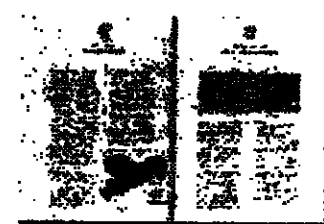
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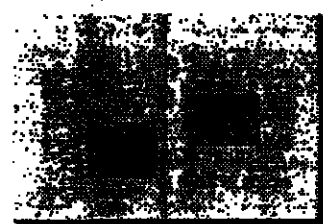
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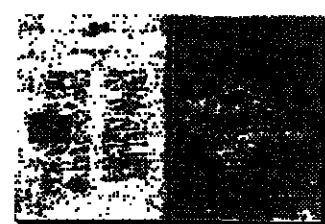
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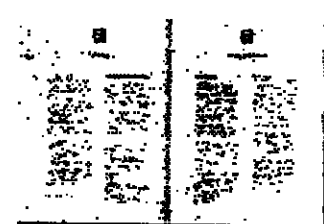
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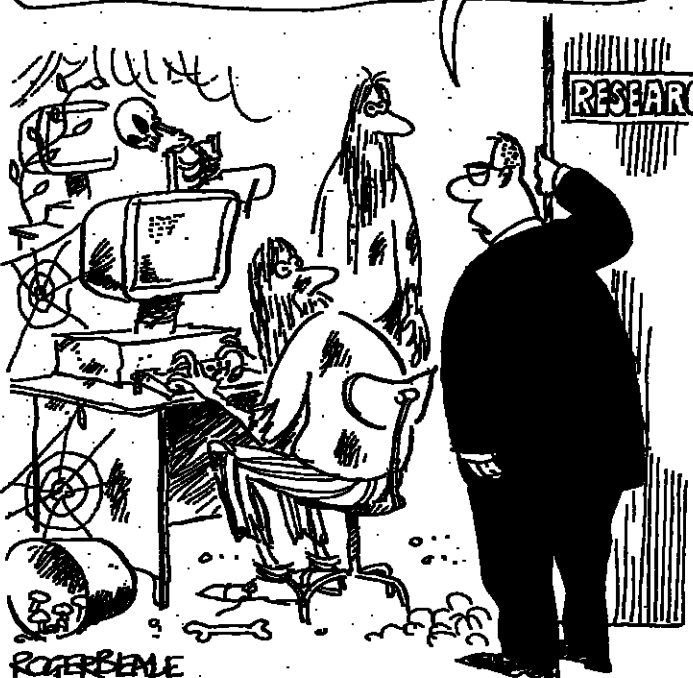


## TECHNOLOGY

Tom Foremski says the answer to making tailored software in record time is close at hand

# What's the object?

THE BOSS WANTS TO KNOW HOW MUCH LONGER THE NEW PROGRAM WILL BE



With its object linking and embedding technology, it plans to introduce an object-based operating system (code-named Cairo) in 1996, giving its popular Windows system software the ability to support object-based applications.

"We believe that object technology represents the industrial revolution of software development and that it will be essential for business application development," says Paul Flessner, senior product manager for enterprise computing at Microsoft. Many US computer companies plan to offer object-based software development systems believing that it will help sell hardware.

Tim Bailey, strategic program manager for objects at Hew-

lett-Packard, says: "There is a tremendous demand for objects among our customers. The potential benefits to organisations from object technology are impressive." Jobs, for example, claims that an 18-month software development project could be cut down to two months or less with NextStep.

While there are many supporters of object-based software development, not everyone is convinced about the dramatically faster application development claims. "It's a standard salesman's pitch," says William Zachmann, president of Canopus Research. "Companies have been making such claims since the 1960s and 1970s. The fact is that developing these custom

applications is very difficult. There are numerous layers of complexity that have to be dealt with. There is no guarantee that object technology will make this job easier."

In order for object-based software to become more widely used, several issues have to be settled. These include the definition of industry standards. The main standards effort is being led by the Object Management Group (OMG), an organisation with more than 420 member companies, and its Common Object Request Broker Architecture (CORBA) standard. But there is no guarantee that the CORBA standard will be followed by everyone.

Microsoft, for example, is a member of the OMG and says it will support industry standards, but it is nevertheless developing its own specifications which are different from CORBA. Next is also hoping that its NextStep software will become an industry standard.

Uncertainty over which object technologies will succeed has led some companies to back several at once. Hewlett-Packard intends to offer object-based systems from Taligent, Microsoft and Next.

"We have an open object strategy," explains Bailey. "Different markets are using different tools. Finance companies, for example, are using NextStep while communications companies are using C++ (an object computer language). We are following our customers."

Digital Equipment Corporation, the US computer maker, is pursuing a similar strategy. It has agreed to offer NextStep on its computers but it also plans to support Microsoft's object-based software.

Sum Microsystems has chosen to stick with one company and has made a \$10m investment in Next. It will combine NextStep with its own object technology called Distributed Objects Environment.

Education is another issue that must be considered. "Training and mentoring services are very important to ensure that customers succeed with object technology," says Richard Dym, vice president of marketing at ParcPlace Systems, the developer of SmallTalk-based application development tools.

Training is important because object-based software development represents a radical departure from the way most programmers have been taught to write applications. "Some programmers just aren't open to change and they don't want to be retrained," says Flessner.

To undertake a serious object-based software development effort, companies would need to retrain some of their programmers and then spend a year or more planning and developing the first object applications. Even then, the cost/benefits of using object technology might not be seen until well into the second or third year.

## Building a new home for scientists

Clive Cookson and Andrew Taylor visit Glaxo's £700m drug research centre



Britain's biggest building project after the Channel Tunnel, Glaxo's £700m drug research centre (pictured right), is approaching completion in Stevenage, 30 miles north of London. Unlike the Channel, it is on schedule, below budget and there have been no fatalities nor serious injuries.

Glaxo is creating the spacious 73-acre research campus on one of the last big greenfield sites left in south-east England. It will house 1,500 scientists and support staff who now work in overcrowded and out-dated laboratories in Ware, a few miles from Stevenage, and Greenford, west London.

The success of Glaxo and its contractors in controlling the project's costs and timing, while maintaining an outstanding safety record, is an object lesson for the construction industry.

The Stevenage project exemplifies many of the recommendations for improved working relationships, made last month by Sir Michael Latham in his government-sponsored report on the building industry. In particular, the integrated management structure provides a high level of control over the design and construction process.

The design phase involved 350 engineers, architects and cost estimators, based in the London offices of consulting engineers Ove Arup. Sub-contractors used the project team's computer-aided design models to develop their own drawings. The London base is linked electronically to the Stevenage site, so that any last-minute design changes are immediately notified to everyone concerned.

"The project is managed like a company's board," says Richard Harriott, senior Arup director for the Stevenage project. "Glaxo acts as chairman, with the other professionals playing a full role in decision making."

The overall architectural planner is the Kling Lindquist Partnership of Philadelphia, chosen because Glaxo liked the way it designed the company's US research headquarters in North Carolina. The Stevenage campus is

emerging with the wide-open feel of an American science park, sandwiched between two of Britain's principal transport links, the east coast main line railway and the A1 trunk road. The landscape features a serpentine lake, as well as 23,000 trees.

The main building contractor is Laing Morris-Knudsen, a UK-US joint venture between Laing of London and Morris-Knudsen of Cleveland, Ohio. During the peak construction activity in 1992-93 LMK had 3,000 workers on site.

Glaxo is particularly proud of the safety record which Malcolm Carne, one of the engineers supervising the project, says is five to 10 times better than the UK construction industry average. Glaxo executives were warned, when they decided in 1987 to build the research centre, that they would kill three people in the process if the safety performance was just average.

So Glaxo, aided by Arup and Laing, implemented rigorous safety procedures. The workforce was given generous incentives to work safely. For every million man-hours without a serious accident, Glaxo held a draw for a new Volvo car. "So far we've given away 10 Volvos," says Sir Mark Richmond, research director.

Completing the project under budget - with a likely final cost of \$670m compared with the

budgeted \$710m - owes a lot to lucky timing, Richmond concedes. Cost estimates were made when the construction industry was working at full capacity, but many of the contracts were placed two or three years later when companies were cutting prices to win business.

Glaxo executives may worry that shareholders see the Stevenage campus as extravagant, even with its total costs slightly reduced, now that the company's great expansion of the 1980s is over and the pharmaceutical industry is entering a period of relative uncertainty.

However Roger Newton, head of chemistry, points out that Glaxo's Greenford labs - many dating from the 1950s - "were at the end of their useful life and would have had to be replaced anyway. We also needed to build a new microbiology pilot plant". By putting everything on one site, Glaxo avoids duplication of equipment and saves many tedious road journeys between Ware and Greenford.

Sir Richard Sykes, chief executive, is unapologetic about "the benefits of bringing together all our research in the UK chemistry and biology - on one imposing site with first-class facilities. These people are going to be more productive when they are working together in an integrated way".

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## BUSINESS AND THE LAW

## Bit of a mess over waste

Diana Bentley on a disappointment for the EU packaging industry and environmentalists



The Union's problems with package waste pile up

The failure of the European Council to approve the proposed Packaging and Packaging Waste Directive this June was a disappointment for environmentalists and the packaging industry alike. With the directive now consigned to the unfamiliar conciliation procedure established under the Maastricht treaty, its future seems in doubt, leaving member states free to pursue their own, disparate management systems.

The directive, adopted by the European Commission in July 1992 and amended in September 1993, was intended to control the hazard presented by packaging waste, and to overcome the threat posed by individual national schemes to the single market. But, although a harmonised approach to packaging control is generally welcomed by member states, some of their programmes were blocked in the council in March by Germany, Denmark and the Netherlands, which believed the "target waste-recovery and recycling rates were not sufficiently stringent."

Targets outlined in the directive are much lower than those originally proposed and have some flexibility. For the first five years after the implementation of the directive, targets would be 50-65 per cent for packaging waste recovery and 20-45 per cent for recycling, averaged across all packaging materials, with a minimum of 15 per cent for each kind of waste material. Targets for the remaining 10-year period, intended to be higher, would be established under a review procedure.

Some friction over the issue was avoided through provisions that would allow upward derogation from targets for member states wishing to exceed them - provided their measures did not distort the single market, damage the environment or hinder other member states' compliance with the directive. Downward derogation would also be permitted for Greece, Ireland and Portugal, prompting criticism that the directive falls some way short of harmonisation.

So why did the directive fail? Several issues led to the impasse. Some member states opposed not only flexibility of targets, but also the management hierarchy of waste control. Under the directive, methods such as recycling, re-use and recovery, including incineration with energy recovery, are considered equally acceptable until "environmental

impact studies prove otherwise. While the European Parliament's proposal that an article specifically calling for prevention of waste was accepted, its suggestion that methods be listed in order of preference was not.

Economic instruments such as a tax on waste or landfill levies also proved controversial. "Some countries were loath to hand over tax-making power to the Council," explains Ms Suzanne Clabon, of UK law firm Clifford Chance. But it was Belgium, fearing the provision could threaten the future of its planned coal taxes, that dealt a death blow to the directive in June by forming a blocking majority.

Ironically, while the EU prevaricates on the directive, various member states have addressed the subject, and diverse national measures have now intensified the need for harmonisation. The treaty base of the directive remains Article 100a, with its objective of protecting the single market, but currently, says Ms Clabon, "the number and nature of national management systems could well be a threat to the single market".

Mr James Devereux of Ince, an independent UK industry body, agrees. "They certainly don't help create a level playing field and some are viewed as thinly disguised trade barriers."

National regimes vary considerably. France's legislation introduced in 1992 addresses household packaging waste, which producers must take back or pass on to a state-approved organisation under a scheme administered by local authorities. Incineration and recycling are permitted. Currently, rules are being developed for commercial waste.

So far the UK has avoided legislation and opted for a system of self-regulation. Plans of the Producer Responsibility Industry Group, an independent body formed by private industry on government prompting, propose a scheme to achieve a recovery level of 58 per cent of packaging waste by 2000 and the establishment of an organisation to raise necessary revenues. But the group and many in the industry still support the idea of legislation to enforce compliance with the system.

The most controversial regulation is the German Packaging Ordinance of 1991, the most ambitious of the national schemes. To comply with the ordinance, which prevents incineration and landfill, that Germany is unable to recycle all the waste collected and has been forced to export some - particularly plastics that are difficult to recycle. Problems have resulted for environmental controllers in recipient countries, and the difficulties may intensify when the targets for recovery increase to 80 per cent across the board in 1995.

"The German system is the most comprehensive, but also has problems," confirms Mr Bernd Meyer-Witting of Clifford Chance's Frankfurt office. "As well as the problems with plastics, there is some confusion generated among consumers as to segregation of waste. But there are also careful issues with organisations such as the DSD, are you setting up a national monopoly which can set prices?"

Even if the directive proceeds, problems with national schemes may persist. Provisions regarding methods of achieving targets are general, leaving member states free to develop their own management schemes, although proposals for national schemes must be submitted to the Council before adoption.

The directive now lies in limbo, with talks on its future due to start in September. "The matter will be procedurally complicated," says Ms Clabon. Post-Maastricht, some directives failing to gain Council approval at this stage are subject to the "co-decision" procedure, under Article 188B of the treaty, between the Council and the European Parliament. "The concern is that the Council and Parliamentary representatives may not just consider the contentious issues but may reopen debate on the entire directive," she says.

Parliament in this procedure ultimately has a power of veto over the directive. "Parliament is traditionally stronger on environmental issues and the newly elected Parliament may want to flex its muscles," says Ms Clabon.



Pride, pique and pragmatism:  
impact of the embargoes  
on UK and Australia Page IV

## FINANCIAL TIMES SURVEY

## MALAYSIA

Tuesday August 30 1994



## Full steam ahead

Malaysia is still developing at  
breakneck speed but problems lie  
ahead, reports Kieran Cooke

Showing few signs of strain, Malaysia continues to canter towards its goal of full industrialisation by the year 2020. Dr Mahathir Mohamad, the prime minister and driving force behind the country's modernisation programme, can point to a long table of impressive statistics.

For the sixth year in a row Malaysia's gross domestic product expanded by more than 8 per cent in 1993. GDP growth this year is officially forecast at 8.4 per cent, though many feel it could be over 9 per cent. The Malaysian economy has been transformed: in 1970 commodities, mostly rubber and tin, made up the bulk of exports. In 1993 manufactured goods accounted for more than 70 per cent of exports.

Malaysia, with only 19m people, is now the world's 19th biggest trading nation. It has become one of the hubs of the global electronics industry and manufactures a wide range of other goods, from motor cars to condoms, haute couture fashions to household furniture. There is virtual full employment and per capita incomes have risen from \$350 in 1970 to close to \$3,000 today. Dr Mahathir does not think the country is setting its sights too high. "We are not an ambitious upstart. We are in fact very modest," he says.

But while the short term outlook remains rosy, serious problems could put the industrialisation plans off course. Malaysia's development has reached a plateau. With severe labour shortages in many areas and wages rising, the country is facing growing competition from lower cost producers such as Indonesia, Vietnam and China.

Malaysia's economic growth has been driven by its success in attracting large amounts of foreign investment. Despite a pick up in investment approvals this year, investment in the economy is still well below the levels achieved earlier in the decade. Some potential foreign investors have become nervous

as Malaysia has allowed political disputes with both Australia and Britain to spill over into the business arena.

The next phase of Malaysia's development will be dependent on a transfer into more high tech, value added industries. One concern is that Malaysia's industrial base is too narrow - largely dependent on a sector which is still overwhelmingly dominated by foreign multinational companies.

Electronic goods now make up about 40 per cent of Malaysia's exports.

## IN THIS SURVEY

□ **ECONOMY:** inherent strains of success. **NORTH-EAST TRIANGLE:** industrial launch-pad for three States. **PENANG:** electronic powerhouse. Page II

□ **UNIONS:** lack of clout despite relative freedom to organise. **MOTORS:** a brother for Proton. Page III

□ **PUNISHING BRITAIN:** embargo's impact. **POLL-TICS:** quiet for now. **SKILLS:** Achilles heel of manufacturing base. **PROFILE:** Islam and electronics. Page IV

sia's total exports. While progress has been made in promoting linkages between Malaysian based multinationals and local manufacturers, well over 50 per cent of the value of electronic exports is made up of imported goods. Another problem is the reluctance of foreign companies to transfer technology and so help Malaysia up the high tech ladder. Part of this is due to the multinational companies' wish to keep their core industrial processes captive. But it is also due to shortcomings within Malaysia.

Malaysia's education system has failed to keep pace with recent economic changes. The

country has more than 1m immigrant workers, many of them illegal, labouring on plantations, construction sites and in low technology factory jobs. Such a large immigrant workforce is already posing a challenge to the country's delicate racial and religious balance and to its social services.

But the real squeeze on labour is at the higher, more skilled end of the market. Many Malaysians still show a strong reluctance to go into higher education. The proportion of students aged 20-24 in tertiary education is about 7 per cent, compared with 11 per cent in Indonesia, 15 per cent in Thailand and 28 per cent in the Philippines.

Malaysia risks being caught in a medium technology trap: it lacks the all important human resources to follow the path into high tech of countries such as South Korea and Taiwan. Allied to this is a serious shortfall in R&D spending: present spending in Malaysia is less than one per cent of GDP, compared with two to three per cent in developed countries.

Problems in the education sector are mainly related to the majority Malay community. Senior officials now openly refer to a Malay educational crisis. By not investing in education the Malays risk losing their stake in the country's future.

Traditionally the Chinese, who account for about 35 per cent of the population, exercised a large degree of control over the economy. In the early 1970s the government, in response to serious race rioting, introduced its New Economic Policy (NEP). The aim was to eradicate poverty and increase bumiputra, or indigenous Malay, participation in the economy.

Malays were favoured in education, in government jobs and other fields. They were given preferential and highly lucrative share allocations as the government embarked on a widescale late 1980s privatisation programme. The NEP was a partial success: according to official statistics bumiputras

controlled more than 20 per cent of corporate activity by 1990, up from fewer than 5 per cent 20 years earlier.

Dr Mahathir berates bumiputras for their "get rich quick" mentality and failing to make long term investments. Yet government policies have tended to encourage Malay dependence on official favours.

A new National Development policy (NDP), covering the years 1991-2000, puts more

□ Contd. on facing page

## KEY FACTS

Area .....	329,756 sq km
Population .....	19.3 million
Head of State .....	Yang di-Pertuan Agong
Currency .....	Malaysian Ringgit
Average exchange rate .....	1993 M\$2.57=1 US\$
.....	1994 M\$2.54=1 US\$ (19/8/94)

## ECONOMY

	1993 *	1994 *
Total GDP (M\$bn, 1978 prices).....	100,475	108,595
Real GDP growth (%).....	8.0	8.1
GDP per capita (M\$, nominal).....	8,350	9,134
Components of GDP (%) .....		
Private consumption.....	48.9	45.9
Public consumption.....	14.3	14.5
Investment.....	36.1	37.3
Exports .....	85.1	85.3
Imports .....	-82.7	-82.9
Annual average % growth in.....		
Consumer prices (%).....	3.8	3.5
Producer prices (%).....	2.9	2.8
Manufacturing (%).....	12.5	12.2
Services (%).....	8.7	9.4
Employment (000's).....	7,371	7,607
Unemployment rate (%).....	3.0	2.8
Money supply (M1).....	26.8 *	na
Interest rate .....	5.64	na
Reserves minus gold (US\$bn).....	19.4 *	na
Stock Exchange Index (%) * .....	98.0	42.8
KLSE Turnover (vol, units m) * .....	105,011.1	na
Trade.....		
Current acct balance (US\$bn).....	0.2	0.6
Merchandise exports (US\$bn).....	45.5	50.2
Merchandise imports (US\$bn).....	40.4	44.8
Trade balance (US\$bn).....	5.1	5.4
Main trading partners (%) .....		
ASEAN.....	27.6	19.9
EEC.....	14.6	11.2
Japan.....	13.2	27.5
US.....	20.2	17.2

(1) 1993 figure is an estimate. (2) 1994 figure is a forecast.  
(3) 1978 prices. (4) Of goods & non-factor services. (5) November.  
(6) 3 month Treasury bill rate, October only. (7) 1992 only.  
(8) Actual. (9) KLP composite, year end, 1994 year to date.  
(10) Jan to Oct 1993, share of world trade.

Sources: Economist Intelligence Unit, Economic Planning Unit - Prime Minister's department, Datastream



Hub of a world industry: Premier Mahathir at a Malaysia-Finnish telecoms equipment plant in Kuala Lumpur

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INTERNATIONAL NETWORKING



هناك في الامم



Kieran Cooke on the strains and stresses of economic success

## Driven by exports



Finance Minister Anwar Ibrahim on track for another robust year

Like a runner who chafes up record lap after record lap, Malaysia's economy continues to run ahead at a dizzying pace.

Last year Malaysia's gross domestic product (GDP) grew by 8.5 per cent - the sixth successive year of plus 8 per cent growth. In the first quarter of this year GDP expanded by 8.6 per cent, predictions for full year growth now range from 8.3 to more than 9 per cent.

There have been warnings that the economy is in danger of overheating and that such high growth cannot be sustained. Some analysts worry about growing imports and a rise in consumer spending. Malaysia is also in danger of losing competitiveness with wages rising faster than productivity. The government has to struggle to attract more inward investment.

However, faced with a barrage of favourable statistics, such concerns are easily brushed aside by a government eager to promote the success of its economic policies.

The goal that has eluded economic planners worldwide - achieving high growth while keeping inflation low - seems to have been achieved. Despite the years of economic expansion inflation has rarely risen above 5 per cent.

The long term goal is to achieve full industrialisation by the year 2020 - a plan called Vision 2020 by the government's copywriters. To meet that target Malaysia's economy needs to grow by 7 per cent in each of the next 26 years.

Dr Mahathir Mohamad, the prime minister, dismisses the idea that this is overly ambitious. He points out that for much of the period since Malaysia's independence from Britain in 1957, Malaysia's economy has grown each year by well over 6 per cent. "I am confident that the targets of Vision 2020 are attainable," says Dr Mahathir. "The Government and its successors are committed to this vision."

The engine of economic growth has been the wholesale expansion of an export orientated manufacturing sector. Over the past 20 years Malaysia has been transformed from a commodity based to a manufacturing economy. In 1971, more than 80 per cent of exports were commodities - mainly tin, rubber and petroleum products. In 1993, manufactured goods formed more than 70 per cent of exports. "There is no doubt that had we

can at least be sustained and fuel the continued expansion of the manufacturing sector. In the first quarter of 1994 output in the manufacturing sector grew by 13.7 per cent.

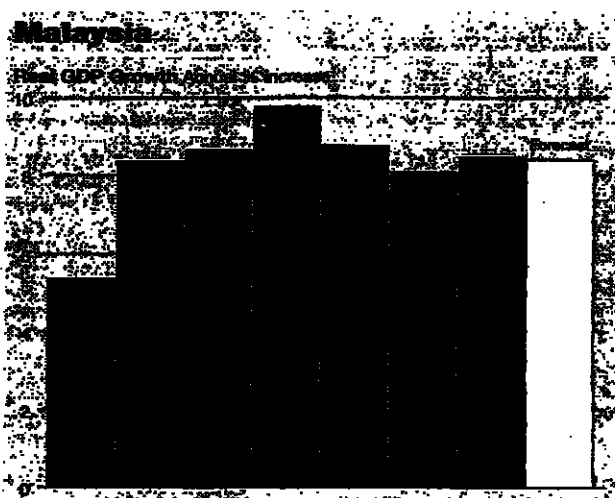
"The public finances are in good order. For the first time in more than 30 years Malaysia achieved a balanced budget in 1993. High rates of domestic savings, at about 34 per cent of GDP, provide a ready source of funding for outward growth."

"That we are on track for yet another robust year is very encouraging for us," said Mr Anwar Ibrahim, the deputy prime minister and finance minister, in June.

However, economic success has brought its problems. The number one priority of Malaysia's monetary authorities has been the fight against inflation. Encouraged by the buoyant economy and a stockmarket that rose by nearly 100 per cent last year, massive amounts of foreign funds have washed into the country. Speculators also pushed funds in, hoping to gain from a rise in the ringgit, the Malaysian dollar.

Bank Negara, the central bank, was forced to mop up M\$40bn in excess liquidity from the banking system last year in order to stop the build up of inflationary pressures in the economy.

Malaysia has embarked on a large scale programme to build up its infrastructure. New airports, power stations, roads and railways are being con-



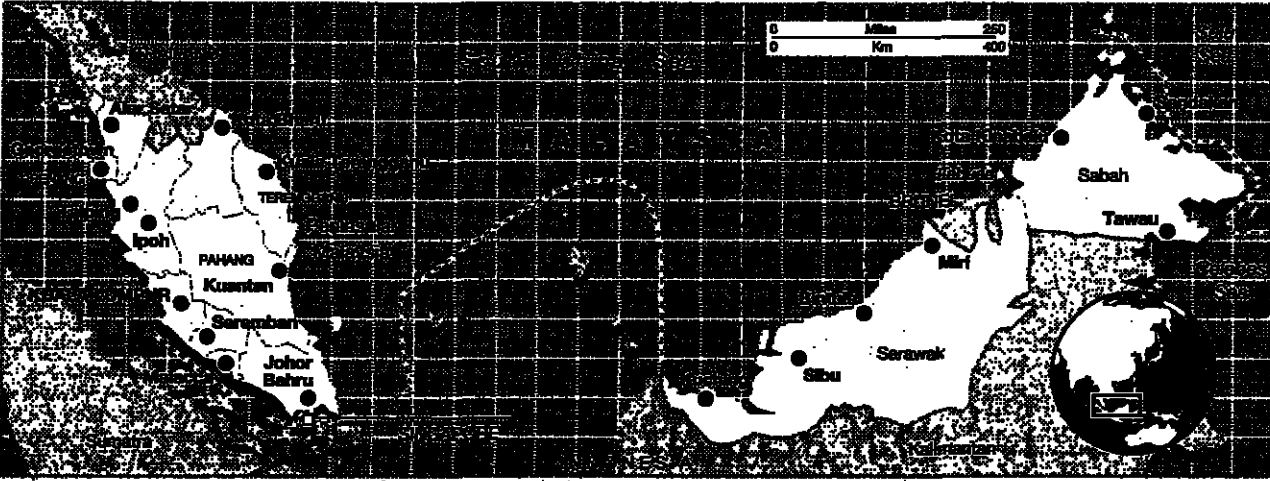
Malaysia's GDP growth rate from 1980 to 1993

structed. Such projects, besides relieving some of the bottlenecks that have built up in the economy, will further fuel growth. However, imports of expensive capital equipment associated with such projects - particularly in relation to yen denominated Japanese goods - have caused balance of payments problems.

A strong revival in domestic spending has increased economic activity but has also spurred a rise in imports. A Bank Negara prediction made earlier this year of a 1994 M\$9.5bn surplus in the merchandise account of the balance of payments is generally regarded as over optimistic: a

widening deficit in the services account - projected at more than M\$15bn - is likely to lead to a current account deficit of more than M\$6bn.

Of more concern in the long term are a number of structural problems within the economy. Chief among these is a shortage of labour which in turn has led to upward pressures on wages. Till now the government has managed to dampen wage demands by, on the one hand, keeping down inflation and, on the other, by importing hundreds of thousands of workers, mostly from Indonesia and Bangladesh. In many sectors of Malaysia's plantation industry immigrant



Penang is Malaysia's electronics power house, says David Goodhart

## Where chips eclipse smelters

"I suppose you want to know when the bubble is going to burst?" asks Mr Mohd Nasir, boss of the old tin smelter in the middle of Penang.

It was not an unreasonable question. The small island off the west coast of the Malaysian peninsula has, for the past 10 years, been the most dynamic growth region in Malaysia and one of the most dynamic in the world.

Average annual growth has been over 10 per cent since 1983, usually at least two percentage points above the national average, and even when foreign direct investment started to falter last year in the country as a whole it was scarcely dented in Penang, the centre of Malaysia's electronics industry.

Mr Nasir had just returned from a ceremony to launch a new programme linking Penang's top electronics companies - Hewlett Packard, Hitachi, Bosch, etc - to local small and medium-sized businesses. At the ceremony, Mr Koh Teo Koon, Penang's chief minister, and Mrs Rafidah Aziz, Malaysia's trade and industry minister, emphasised the importance of Penang's industrial revolution and making it less dependent on low value-added assembly operations.

Twenty years ago Mr Nasir's tin smelter was still the largest employer on the island. Now its 600 employees are outnumbered by the 3,000

employed by dozens of electronics plants. The smelter is still one of the biggest in the world, producing about 30,000 of the 150,000 tonnes of annual world output, but it is being run down gradually so that its owners (ultimately the German group Preussag) can sell off a prime city centre site.

The smelter is not, however, immune to the symptoms of over-heating all around it. Mr Nasir, for example, is trying to hire 60 extra labourers for his unionised plant at a reasonable rate of close to M\$500 a month. So far he has found just two.

But he remains an optimist. "The bubble will not burst here because the state government is sensible enough to let out some of the air," he says. It is, for example, discouraging labour-intensive investments in Penang, especially from the Taiwanese. Companies such as Destek, which is shifting disk drive production to China, are being encouraged to move to lower labour cost parts of Malaysia or to other countries in the region. "The Northern Growth Triangle (NGT) - the agreement between the governments of Malaysia, Thailand and Indonesia to improve cross border economic activity - should encourage this exodus."

"We are becoming a great deal more picky about the kind of investor we want in Penang," says Mrs Lim, M&S, managing director of M&S

consultancy services, part of the Penang Development Corporation. She said this while sitting in the dark, thanks to one of the power cuts common in a region knocking up against capacity constraints.

Such constraints on power supply as well as transport capacity will not be resolved by upgrading Penang's production base. Nor will such upgrading diminish the growing pollution problem which has made much of the sea around the island unfit for tourists to swim in.

Nevertheless, Penang will remain the focus of Malaysia's belated transition to higher value-added production. As wage rates continue to rise sharply, some of the generous investment subsidies, phased out (part of the Gatt agreement on world trade), and shifts in exchange rates become less favourable, the region has little choice.

Wages in Penang are substantially above levels elsewhere in the country, with basic wages (excluding many fringe benefits, but including overtime) for skilled workers around M\$900 a month. Yet the electronics sector, which employs about 60 per cent of the region's 170,000 manufacturing workers (out of a total workforce of 450,000), has an annual value-added per employee of only M\$14,000 per year, placing it well behind electronic industries such as South

Low value-added electronic components - where Malaysian factories usually add only about 30 per cent of the value of a product - still account for about 40 per cent of the country's electronic sector, although that is down from as high as 80 per cent in 1986. In Penang (which accounts for about half of the country's electronic industry) there has been robust growth in industrial and consumer electronics.

There are also some signs of increasing automation and the heating of more design and R&D work in Penang. Intel is building an integrated manufacturing plant in Penang. Motorola already locates its worldwide R&D centre for mobile phones and pagers in Penang, employing more than 100 engineers at an annual cost of more than M\$5m.

But Penang, like Malaysia as a whole, lacks graduate scientists and skilled technicians. Mr Ismail Mohamed Salleh, of the IISB think-tank, says in a recent paper on the electronics industry in Malaysia: "While some progress has been made in the forefront of technology... there has been little deepening in the product design and technologies of the products themselves."

Penang is still booming, but as one business leader put it: "We have reached the end of the road on our first phase of industrial development and we do not yet have the people for the second phase."

bevy of corporate leaders in pursuit of business opportunities. The problem is that political connections are often felt to be more important than company balance sheets.

The Kuala Lumpur stock market, now southeast Asia's biggest in terms of market capitalisation, rose by 98 per cent last year. Part of that rise was due to Malaysia's strong economic fundamentals and the activities of well managed, cash-rich companies. But the most actively traded were those known for their corporate governance and for their connections to senior politicians.

Malaysia's leaders, flush with the success of recent years, are confident that they are steering the country on the right path. But their carefully laid plans could go seriously off course unless pressing economic, social and political problems are tackled.

## THE NORTHERN TRIANGLE

## Where three states meet

Penang is now trying to market itself as the industrial hub of a "growth triangle" linking the northern peninsula of Malaysia, north Sumatra in Indonesia, and the southern states of Thailand.

This growth triangle, following an earlier southern version based around Singapore, was endorsed by all three governments last year.

The third meeting of the Northern Growth Triangle (NGT) governments this December, flanked by meetings of business leaders, will discuss a report from the Asian Development Bank containing proposals for improving transport links and labour mobility and establishing cross-border industrial estates.

The NGT is meant to be business-led but the three governments have rather different attitudes to their business organisations. The Thai government is happy to let the business leaders take control, but the Indonesian government is more intent on keeping control. The Malaysian government lies somewhere in the middle with an important role in promoting the NGT taken by the Penang state government.

Mr Koh Teo Koon, chief minister of Penang, and most influential Penang business leaders, see the NGT as a means of channelling labour intensive operations out of Penang and into northern Malaysia or southern Thailand. Meanwhile, Penang hopes to become a regional centre for business services, research and development and high value-added production. Some business leaders fear that the NGT may aim too high and disappoint expectations.

"It would be nice if we could abolish all tariffs and borders and have completely free movement of capital, goods and people. But it takes decades to get anywhere if national sovereignty is at stake, just look at how long it is taking to harmonise regulations in the European Union", warns one Penang business leader.

He believes that the greatest potential in the short-term is in sorting out some of the transport bottlenecks. Currently, for example, there are no flights between Penang and Southern Thailand and there is no direct sea link across the straits of Malacca linking Penang with Medan. Freight has to travel all the way down to Singapore and back up again.

He also believes that travel restrictions could be removed allowing for much more free movement for business people. This is not the same as free movement of labour.

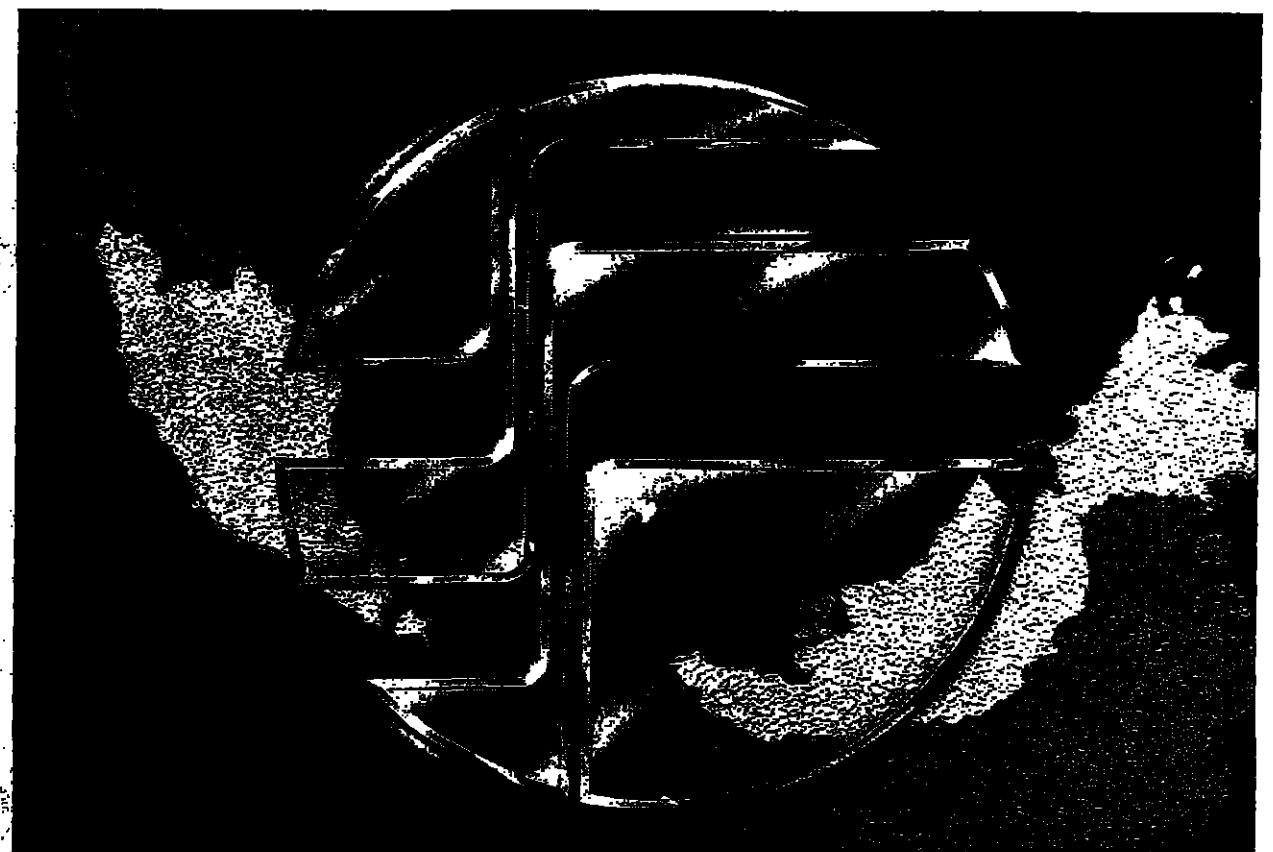
There is already a large flow of immigrant labour - much of it illegal - from the periphery to fast developing regions like Penang. But the Malaysians worry about being swamped by foreigners and hope that the NGT might help to slow the flow by providing more jobs in the outlying regions.

The Asian Development Bank report, which will form the basis of December's meeting, is expected to concentrate on the following themes: Highway development, air services, streamlining of regulations and tariffs, a gas pipeline, labour mobility, cross-border industrial estates and tourism.

David Goodhart

Indonesia-Malaysia-Thailand Growth Triangle			
Region	Area (sq km)	Population ('000)	Persons/sq km
Northern Malaysia	32,257	4,658	144
Southern Thailand	20,805	2,940	136
North Sumatra	127,070	13,667	106
TOTAL	180,138	21,165	117

Source: official statistics



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Continued from facing page  
emphasis on growth and market forces as a means of achieving some form of economic equilibrium between the races. But recent figures show that, since the advent of the NDP, the bumiputera share in the corporate sector has declined.

There is concern that, despite job shortages, a substantial portion of the younger generation are not working or studying - threatening the country's onward growth. Similar fears are expressed by other Asian governments. The west serves as a convenient whipping horse and is blamed for spreading moral decay and indiscipline. In reality the younger generation is less unresponsive to constant calls for more hard work and is not so willing to kowtow to its elders. In Malaysia's strictly hierarchical system, there is little room for alternative voices or

## Hectic pace

for questioning the direction of government policy. People feel there is a lack of transparency and accountability.

The government has control over most of the media. Dr Mahathir's United Malays National party (UMNO) has dominated government since independence from Britain in 1957. Dr Mahathir has been in power since 1981.

The past year has seen its share of scandals, but Dr Mahathir's government has escaped unscathed. Bank Negara, the central bank, disclosed in March that it lost M\$5.7bn (\$2.25bn) in foreign currency transactions last year. That followed foreign exchange losses of nearly \$10bn in 1992, though the overall losses may have been con-

siderably higher. Mr Lim Kit Siang, an opposition leader, described the mismanaged currency dealings as the "the greatest financial scandal in Malaysian history".

Bank Negara's governing and some senior officials resigned. But the government quickly closed the book on any further enquiry into the affair.

The prime minister is strongly critical of what is called "money politics". Yet the small and divided opposition says that it is Dr Mahathir's UMNO party, through political handouts at successive elections, which has encouraged the growth of political corruption.

Dr Mahathir advances the idea of Malaysia Inc, tirelessly travelling the world with a



## MALAYSIA III

David Goodhart inquires why trade unions are not more militant

## Compliant workforce

Malaysia's trade unions ought to be flourishing. The country has full employment and rising wages, and the unions are freer than in most countries in the region. But the leaders of the main union centre - the Malaysian Trade Union Congress - are subdued.

"Things here are not as bad as in many countries, we have semi-free trade unionism," concedes Mr G Rajasekaran, MTUC secretary general. Union membership has even been rising, especially in the manufacturing sector, but it is not keeping pace with the growth in employment and has fallen sharply in the traditional stronghold of the rubber plantations.

Including members of the two smaller union centres, the Malaysian Labour Organisation (led by the main bank employees union) and CUEPACS, representing public sector workers, there are about 700,000 trade union members in Malaysia. That means about 15 per cent of the eligible workforce is organised.

"We are doing better than some countries like the US, but we are not happy with our performance and we should do better," says Mr Rajasekaran. One of the biggest problems for the unions is the growth of immigrant labour - mainly from Indonesia and Bangladesh. Immigrants have caused a big drop in union membership in construction and the plantations, where they are often paid at lower rates than Malaysian workers.

How much the low membership is also the result of government restrictions is hard to judge. Mr Gordon McColl, in the Singapore office of the International Confederation of Free Trade Unions, reckons that the MTUC would double its membership from 400,000 to 800,000 if it faced no restrictions.

The government believes in consensus around its own model of "guided" politics and economics and makes no secret of its dislike for adversarial trade unionism. Government ministers labelled union leaders "traitors" when they supported the call in international forums for minimum world



January 1990: plantation hands strike for more pay - but electronics workers are barred from unions

labour standards, an accusation that hurt.

Mr Anthony Yeo, secretary general of the Ministry of Human Resources, says that complete freedom of association could add to costs "because of unscrupulous trade union activity".

On paper the trade union recognition laws are liberal. If seven workers petition for a union the Registrar of Trade Unions has to consider it, and if 50 per cent plus one of the relevant employees of a company are members of the union the employer has to recognise the union.

In practice, however, it is extremely difficult to form a new union and the unions are engaged in a constant game of cat and mouse with the Registrar. Applications are regularly turned down. The textile union wanted to organise the Mattel plant which makes Barbie dolls, but was told it was a toy and not a textile factory.

Similarly, when workers at a Kimberley-Clark factory wanted to join the print and paper union the Registrar told them it was the wrong union but refused to tell them which would be the right union saying it would be "unethical" to do so.

Most controversially, the national unions are not allowed to organise in the electronics sector, which employs nearly 200,000 people and is the fastest growing sector. "About 70 per cent of the workers are women and they tend to be docile," says Mr Abdul Razak

Hamid, head of the textile union in Penang.

Mr Yeo defends the government's position: "We believe that enterprise unions are the most appropriate for this sector, although it may be that at some point in the future we will adopt a different position."

Mr P Arunasalam, general secretary of the electrical workers union, says that most of the enterprise unions without away after a while, and some employers even prevent them getting started. But his biggest complaint is that the definition of electronic is constantly shifting to include lots of electrical workers who should be in his union.

If extending organisation is hard, going on strike is harder. Mr Hamid, of the textile union, says: "We can go on strike, but then again we can't." The last proper strike in his sector was in 1976.

The law can require compulsory arbitration instead of a strike and there is no right of appeal. In practice that means no strikes. The closest union members get to industrial action is picketing in their lunch breaks. Recently, for example, employees at Unilever in Kuala Lumpur started a lunch-time picketing campaign after a 9 per cent pay claim was rejected.

The union leaders do not deny that wages and working conditions have been improving. But they are caught between claiming that wages have not been rising as fast as the employers maintain and

claiming credit for the rises that have been achieved.

Mr Arunasalam says that wages have gone up 27 per cent over the past three years in the electrical sector in factories covered by collective agreements (which have built-in 10 per cent annual increments), compared with only 15 per cent in non-union plants.

Mr Rajasekaran believes, like the government, that wages should rise in line with productivity but claims that many workers have been getting reasonable rises only by working excessive overtime and points to the much higher basic wages in Singapore.

And Mr N Balakrishnan, an official of the electrical union in Penang, takes issue with the World Bank figures which show average per capita income at around US\$3,000 and says that 70 per cent of workers earn less than US\$2,000.

But Mr Balakrishnan sounds dispirited. "Consumer culture is now such a big thing, workers are just interested in working and spending, they are not interested in union activism," he says.

Workers in unionised plants have better job security. But Malaysia does not have a hire and fire industrial culture and employment rights and health and safety regulation are both reasonably good, at least on paper. An economic downturn might help improve the standing of the unions, but the union leaders fear that any success would bring with it even tighter restrictions.

Malaysia's car industry is a symbol of the country's ambition to join the league of developed nations. It is also the foundation of the country's industrialisation programme, writes KIERAN COOKE.

The first car to be manufactured in Malaysia, the Proton, rolled off the assembly line in 1985. Last year Proton produced a record 116,511 cars at its plant outside Kuala Lumpur. The Proton, made in co-operation with Mitsubishi of Japan, now has a more than 70 per cent share of the domestic car market.

Last year more than 17,000 Protons were exported - the bulk of them to Britain. Proton is now making plans for marketing a left hand drive version of its cars in continental Europe. It is also expanding its presence in the region: more than 2,000 Protons are likely to be exported to Indonesia over the next year in exchange for Malaysian purchases of Indonesian-made aircraft.

Plans are well advanced for a joint venture Proton assembly plant in the Philippines. Malaysia and Vietnam have signed preliminary agreements for cooperation in setting up a Vietnamese car industry. In May, Malaysia, Japan and China signed a memorandum of understanding for the manufacture and distribution of car components in China.

Encouraged by the success of Proton, Malaysia is now embarking on its second national car project. In July this year Perusahan Otomobil Kedua, or Perodua, rolled out its first four seater 660cc passenger car. The Kancil, or Mouse Deer, is being produced in co-operation with Daihatsu and is modelled on the Japanese group's Minica car.

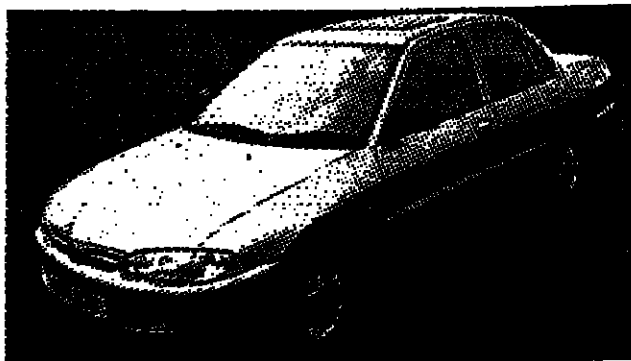
Perodua says that 100 Kancils per day will be produced by the end of the year: production will eventually rise to 45,000 annually. There are plans to export the Kancil in the near future.

From the beginning, Dr Mahathir Mohamad, Malaysia's prime minister, has been the driving force behind the growth of the country's car industry. Dr Mahathir sees the car sector as the catalyst for industrialisation: industries will grow to service the car sector and eventually diversify into other activities.

This has been happening. More than 70 per cent of the Proton is now sourced in Malaysia. In an important step

## THE MOTOR INDUSTRY

## For Proton, a brother



Proton's new Persona 1.5 GLSi: spearhead of UK sales drive

toward more self sufficiency Proton is now beginning to cast its own engine blocks. A widespread network of industries and vendors have become involved in the car manufacturing process.

However the Proton's core technology and high value items, including much of the transmission system, are still imported from Japan. Dr Mahathir has criticised the Japanese for not transferring technology fast enough.

"We have to learn from the Japanese," says Dr Mahathir. "But at the end of the day we have to be independent, in the

sense that we can develop our own car. We have to try to get the technology from somewhere, somehow, the Japanese step by step philosophy is fine, but the steps are being taken too slowly." The Japanese say that Malaysia still lacks some essential skills and must invest more in training and R&D.

The formation of a national car industry has been a costly exercise with millions of dollars of public funds poured into Proton. Despite a 35 per cent increase in turnover last year Proton's pre tax profits dropped 9.3 per cent to M\$282m. Much of the profit

drop was attributed to the rise in the value of the yen and the consequent increase in import costs.

Mr Nadzmi Mohamed Salleh, a Malaysian who last year replaced a Mitsubishi executive as Proton's managing director, says that Proton does not have sufficient economies of scale to make 100 per cent local content a realistic proposition. "The costs would be too high," says Mr Nadzmi. "Instead Proton may well opt for global sourcing."

That appears to be already under way. In mid year Dr Mahathir made a trip to the Peugeot Citroën works in France. Latest reports are that Citroën will soon begin supplying engines for a variation of the Proton.

Proton is believed to have also investigated parts supply from Mercedes Benz in Germany and General Motors and Ford in the US. Rover was also apparently thought of as a supplier but dropped due to the ban on giving government contracts to UK companies.

Some feel that Malaysia is being overly ambitious in embarking on a second car project. Part of Proton's success in the domestic market has been due to high duties placed on the import of other cars. The new Kancil will be considerably cheaper than the Proton and Malaysia's premier car maker could see its market share decline.

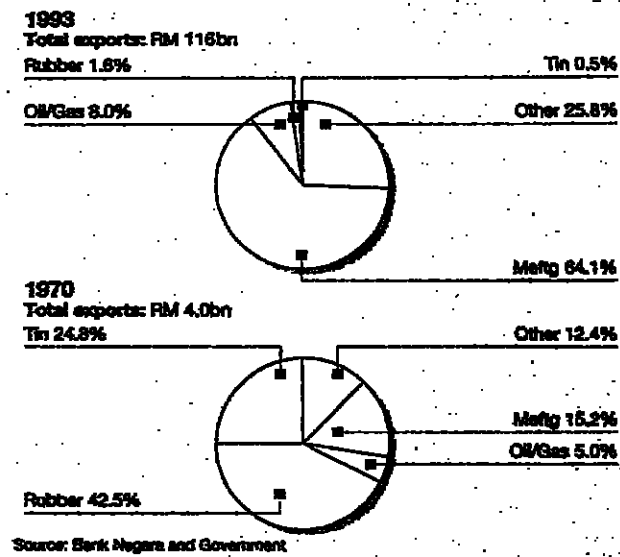
Proton admits that with the domestic market at near saturation point, it has to export to survive. However, Proton's Japanese partners are unhappy at the prospect of the Malaysian car competing with their own makes in markets such as Indonesia.

In Britain, one of the main attractions of the Proton is its price. The UK prices of Protons start at about M\$27,500 (£6,990). In Malaysia the cheapest Proton costs more than M\$30,000. Under the European Community's generalised system of preferences (Gsp), Proton has full exemption from UK import duties. Continued Gsp exemption is vital for UK sales.

If Proton starts making significant inroads into the car market on the continent, Europe's motor manufacturers might argue for a revision of Malaysia's Gsp status or demand the removal of Malaysia's protective import duties.

Malaysia's car industry has travelled a long way in the last 10 years. Progress could be slower in the years ahead.

## Malaysia's exports



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هكذا ان الاصل



It has not been a good year for British/Malaysia relations. Then again Britain has not been the only one on Kuala Lumpur's blacklist: Australia also has problems.

Businesspeople have come to realise the considerable opportunities in catering to the needs of such a fast growing and ambitious country as Malaysia. They have also had to grow used to the risks involved in dealing with a government which is often extremely sensitive to outside opinions or criticism.

For Britain, the trouble started with the controversy in London over the granting of a \$250m aid package to Malaysia for the building of the Pergau dam and its linkage to a 1988 \$1bn defence contract signed between the then British prime minister, Mrs Margaret Thatcher, and Dr Mahathir Mohamad, the Malaysian prime minister. Malaysian officials angrily rejected allegations that the Pergau project was an unsound one or that it was too expensive.

On top of this came an allegation in a British newspaper that a British company had tried to offer bribes to Dr Mahathir. Though the newspaper did not allege that Dr

Kieran Cooke looks at the impact of the trade measures against UK and Australia

## Pique, pride and pragmatism

Mahathir had accepted bribes or had been involved, the prime minister interpreted it in broader terms - a personal insult and an attempt to undermine the integrity of Malaysia's leadership.

"We believe the foreign media must learn the fact that many developing countries, including a country led by a known Muslim, have the ability to manage their own affairs successfully," said a government statement at the end of February.

As punishment for the actions of the British press, Kuala Lumpur imposed a ban on giving government contracts to British companies. Malaysia clearly felt that the British government had the power to censor the press. The official British reaction to the ban only seemed to add to the confusion: on the one hand, Mr Major described the Malaysian action as being "not remotely justified"; on the other, Mr Major's ministers -

in public at least - joined with the massed ranks of British business in laying the blame for the Malaysian action squarely on the British media. There have been some perplexing aspects to the ban. From the beginning it has been difficult to gauge exactly what Malaysia has wanted in order for the ban to be lifted. "All I want is the truth," said Dr Mahathir. "But then the British media is incapable of telling the truth."

The Malaysian government insisted the ban only applied to public sector contracts. But the line between the public and private sector in Malaysia is blurred. Arbitrary rulings have been made on who is and who is not affected by the ban. Some British companies have found they have lost contracts with Tenaga Nasional, the semi privatised electricity utility. Others have continued to work with Petronas, the state oil and gas conglomerate. For British companies the

main casualty of the ban has been work on a new international airport being built south of Kuala Lumpur - at present southeast Asia's biggest infrastructure project with a price tag of between \$500m and \$612m. An Anglo Japanese consortium, which included Balfour Beatty, GEC and Trafalgar House, charged with managing the project, has now been discredited and several years of preparatory work has been aborted.

However, British/Malaysia trade has not been reduced. Rather the reverse. Britain's exports to Malaysia went up by more than 80 per cent in the first six months of 1994 to \$860m while Malaysia's exports to Britain dropped 24 per cent to \$551m. Ironically, part of the reason for the increase in Britain's exports to Malaysia is thought to be the delivery of defence equipment associated with the controversial 1988 defence deal between the two countries.

Australia's problems with Malaysia began after Dr Mahathir decided not to attend a meeting of leaders of the Asia Pacific held in Seattle late last year. In an off the cuff remark to reporters, Mr Paul Keating, Australia's prime minister, described Dr Mahathir as a recalcitrant for his non attendance.

The dark clouds of Dr Mahathir's anger burst, not for the first time, on Australia. Various retaliatory actions were threatened. Australian business was warned that it could lose contracts. A great deal of diplomacy was needed before relations improved.

Recently both countries have been in trouble again with Kuala Lumpur. The Malaysian leadership objected to British press reports concerning alleged illegal banking payments in Malaysia. Kuala Lumpur has reacted angrily to remarks made by Mr Keating about Malaysian logging companies practising "environmental piracy" in the South Pacific.

Dr Mahathir has always put himself forward as an economic pragmatist. "I'm sometimes nasty to government, never to businesspeople," he said earlier this year. However, there are those who feel that Malaysia's actions have done it more harm than good.

The country is still dependent for its growth on outside investment and technology. Business does not take kindly to being used as a punch bag in arguments it has no part in. There have been rumours that the British ban will be lifted soon. However, no one is holding his breath. In 1991 Dr Mahathir, pleased at what he perceived to be British high-handedness on issues ranging from trade to high fees for Malaysian students in Britain, instituted a "Buy British Last" policy.

It took several years of careful diplomacy in order for that directive to be changed.



It's a funny old Commonwealth: the Thatchers in Malaysia in 1989

The political arena is quiet, but not as somnolent as it appears, writes Kieran Cooke

## A consensus born of progress

Malaysia prides itself on its political stability. The national front, composed of parties representing the country's various racial groups but dominated by the United Malays National Organisation (UMNO), has governed since independence from British rule in 1957.

Dr Mahathir Mohamad, prime minister and UMNO president, has been in power since 1981. Dr Mahathir influences virtually every aspect of Malaysian life.

Not only is the 67-year-old prime minister seen as the main architect of the country's soaring economic growth. The government's hold over the media ensures that Dr Mahathir's views on a range of issues - from moral decay and economic decline in the west to religious conservatism at home - are constantly emphasised.

Economic success has brought about a large degree of political complacency. Constitutional amendments which again strengthened the powers of the executive at the expense of the judiciary were rushed through parliament earlier this year with scarcely a whisper of public dissent. The political opposition is weak and divided.

General elections are likely to be held either later this year or early next. UMNO seems certain to maintain its firm grip.

Lift up the political carpet and things are not quite so orderly. The main points of conflict are found not between the country's various political parties but within UMNO itself. Since the party of the majority Malays controls virtually all positions of power, any internal upheaval is likely to have profound consequences for the country's future.

In UMNO elections late last year Mr Anwar Ibrahim, the 47-year-old finance minister, was declared party deputy president. Subsequently Mr Anwar was appointed deputy prime minister - and the most likely heir to the Mahathir mantle.

Three of Mr Anwar's supporters, all in their 40s, were promoted to leading UMNO positions in the party elections. The old guard, represented by

Mr Ghafar Baba, Mr Anwar's rival for the UMNO post, was unceremoniously pushed aside.

Suave and urbane, his conversation peppered with literary and scholarly references, Mr Anwar is said to represent the Malay baru, or new Malay - modern in outlook, a man capable of carrying through the ambitious Mahathir vision of making Malaysia a fully industrialised nation by the year 2020.

At times the Mahathir-Anwar duo seems to be a carefully balanced alliance. At other times their opinions seem to conflict. Dr Mahathir emphasises economic goals, constantly urging Malaysians to work toward achieving higher growth figures. Mr Anwar warns that people must not be obsessed with material growth and must set aside time for intellectual pursuits.

Dr Mahathir rails against the west and boasts of the region's achievements. Mr Anwar cautions Asians not to be arrogant or to be blind to problems in their own societies.

Mr Anwar firmly denies that there are any political problems between himself and the prime minister. Yet analysts feel that tensions are inevitable between the ambitious younger politician and an elder leader who seems to have no wish to retire.

Allied to this are the increasingly visible strains that have developed between Mr Anwar and Mr Daim Zainuddin, a close confidant of Dr Mahathir and a considerable power behind the scenes. Mr Daim is a former finance minister and functions as a special economic adviser to the government as well as UMNO treasurer.

As Dr Mahathir's trusted lieutenant in the 1980s, Mr Daim helped rebuild UMNO finances after a damaging party split. Mr Daim is a corpo-

rate wheeler dealer who has backed the rise of several Malay businessmen. Political analysts say Mr Anwar has become angry with Mr Daim's attempts to influence government and so promote the interests of his business associates.

Yet as long as Mr Daim has the ear of Dr Mahathir, Mr Anwar can take little action.

While UMNO's top echelon worries about personalities, the rank and file has been voicing growing concern about corruption within the party and the nationwide cult of vote buying and so called "money politics". The party fears the alienation of a wide section of the public from the political process. In June, UMNO held a special convention to discuss such matters.

"If we accept money politics in the party, if corruption becomes a culture in UMNO, if our leaders gain positions through bribery, we will have

a government that is filled with and led by corrupt criminals," Dr Mahathir told delegates. The convention agreed that in future any member involved in money politics would face expulsion from the party.

Stamping out such abuses will be hard. Opposition politicians accuse UMNO itself of making the most flagrant use of money in the election process. Earlier this year Dr Mahathir's national front finally gained control of the local administration in the east Malaysian state of Sabah. Sabah's former rulers not only accused Dr Mahathir's administration of withholding much needed development funds in an attempt to coerce people into voting for the government party. They said the national front was buying votes to the extent that it was "dropping money out of helicopters".

Other forms of money poli-

tics are deeply ingrained, mainly due to historical factors. Traditionally Malaysia's Chinese community, which makes up about 35 per cent of the population, has controlled much of the country's economy. In the early 1970s the government launched its New Economic Policy (NEP), designed to give "bumiputras", or indigenous Malays, a greater share in the country's wealth.

Malays were favoured in government jobs, in education and in business. Under a wide ranging privatisation programme which got underway in the late 1980s Malays were granted preferential and highly profitable share allocations. UMNO itself became directly involved in the private sector, controlling a complex web of businesses stretching into most areas of the economy. A new corporate elite emerged, buttressed by close ties to leading politicians.

Mr Daim insists that since a reorganisation of UMNO finances in 1988, the party has not had any business interests. Mr Terence Gomez, a Malaysian academic who has made an extensive study of UMNO's corporate investments, says that while UMNO may no longer have direct control of companies, the connections are still there.

"A stage has been reached when a business elite, made up of bumiputras and their Chinese partners and with close connections to leading politicians, is able to dominate a large segment of corporate life. It can also seriously influence stock market activity."

The close ties between the business world and leading politicians make it difficult to put a stop to money politics. Such ties also cause resentment among UMNO members who feel the party has lost its way. They feel decisions are made by an urban based, wealthy group with little commitment to the lot of the Malay community.

Dr Mahathir's position is secure. But with his party undergoing a crisis of identity, there could be plenty of political fireworks ahead.

Immigrants fail to ease skilled labour shortage, says David Goodhart

## Factories' Achilles heel



Textile operation: full employment was achieved six years early

Mr O K Lee of the northern branch of the Federation of Malaysian Manufacturers, says annual labour turnover is now about 45 per cent in Penang.

In response to the tight labour market employers have been obliged to bring in more foreign workers - mainly from Indonesia and Bangladesh - usually on five year contracts. This has helped to check wage pressure, especially in the rubber plantations and in construction where the Lsm official immigrant workers are strongest.

But neither immigrant workers nor the latest government initiative to restrain wage increases, expected in next year's budget, can alter the fact that Malaysia is no longer a cheap labour economy.

The World Bank classifies Malaysia as an upper middle income country - and therefore no longer a developing country - and its GDP per capita is nearly \$8,000 (using purchasing power parity) just above Greece, the poorest European country.

For that reason some industrialists view the future in rather apocalyptic terms. "This situation is a trap. We cannot stand still because we will gradually lose more and more

labour intensive foreign investment to lower cost countries in the region. Yet we cannot move forward at the speed required because we do not have a sufficiently educated workforce," says a businessman, who refuses to be named.

The argument, which quickly becomes a political one (hence the anonymity), runs like this: Malaysia inherited from Britain an elitist, arts-inclined, higher education system and very little technical or vocational training infrastructure. This weakness was, however, compounded by the quota system designed to promote the advance of the ethnic Malays and the compulsory use of Malay as the language of instruction at all levels, both introduced in the early 1970s.

The quality and quantity of the education provided in Malaysia by seven universities, two colleges and five polytechnics, at a total annual cost of about \$500m, has thus been inadequate. The result has been that about 80,000 Malaysians studying abroad at any one time (many of them never returning), one of the lowest per capita ratios of science and engineering graduates in the

region (with 83 per cent of graduates preferring arts subjects), and only 7 per cent of Malaysians in the 20-24 age group in tertiary education compared with 28 per cent in the Philippines and 16 per cent in Thailand.

As a result, research and development claims only 0.8 per cent of GDP (and most of that in agriculture) compared with 4.7 per cent in Japan and 4.3 per cent in Germany. How much de-regulation to improve standards is achievable without upsetting the delicate ethnic balance which underpins the country's stability? The answer appears to be quite a lot. The prime minister, Dr Mahathir Mohamad, has relaxed the rules on using English, encouraged "twinning" with Western universities, and promoted a big expansion in private colleges.

More broadly, the government machine, like the Singaporean machine 15 years ago, is starting to focus single-mindedly on the transition to a high value-added economy. Mr Lay Ah Oon, of the Malaysia Industrial Development Authority, says that labour intensive projects from foreign investors are now being turned away, some companies are even being encouraged to relocate in Thailand or China, and there is much greater emphasis on high local content.

This policy emphasis is already making a mark. For

every \$10m of investment approved by MIDA last year seven jobs were generated compared with 14 jobs in 1989. There is some patchy evidence of more sophisticated manufacturing techniques and more research and development being done in Malaysia, backed by generous R&D grants and tax breaks.

To improve vocational and technical training a levy system was established last year under which all manufacturing companies with more than 50 employees have to pay 1 per cent of their wage bill to the Human Resource Development Fund (a total of \$561m last year) which then subsidises in-company training. Also, the government plans to build a further seven polytechnics by the year 2000 and is aiming to double to 8,000 the number of annual science and technology graduates.

Even before it starts producing the workers required by a high value-added economy, Malaysia will remain more attractive than the pessimists concede. Labour may be more expensive than some other countries in the region but Malaysia has reasonable infrastructure, good basic education and widespread use of English. Nonetheless, even some of the optimists concede that its slow recognition of the need to upgrade means that the country still faces a difficult decade of transition.

David Goodhart inspects US disk-maker Komag's Penang operation

## Islam and gigabytes

"I used to share a room with Anwar Ibrahim (now the deputy prime minister) when he was a hot-headed left-wing nationalist. We used to go on demonstrations together," recalls Mr Tan.

While such connections can do no harm, the main reason Komag chose to locate in Penang is the presence of so many customers including Seagate, Western Digital, Hewlett-Packard and Compaq.

"When we were setting up the plant (which opened in early 1992) we made several good decisions and one had to do with the local labour force," recalls Mr Tan. "We had a decision as to whether the Penang authorities when they said they could guarantee uninterrupted electricity supply. The capital and energy intensity of Komag plant compares favourably with the island's power and is badly hit by the regular

power cuts. "We usually have two or three small power cuts each month, which costs us about \$500,000, then every now and then we have a big one which costs more like \$500,000," he says.

The best decision of all was to assign the normal job categorisation for such a plant which starts with a low wage operator and moves up through engineers and technicians to supervisors.

Mr Tan created instead "higher value-added jobs", a manual worker/technician grade and an engineer/supervisor grade.

"The manual technicians have to be able to understand some physics and chemistry as well as work with their hands. When we started we put people through six to ten hours of training - theory and practical tests and only hired 9 out of

every 100," he says. "This was a big gamble but it has paid off, and because the workers understand what they are doing they can use their creativity to improve the process," he adds.

They are paid well above normal rates. A manual technician receives about \$5,000 basic per month but with fringe benefits and social security costs Komag about \$8,100 per month.

Mr Tan says that real wage costs are rising at over 10 per cent per year, and effectively doubling every five years. Employees also benefit from a company-wide profit-sharing scheme which hands out 9 per cent of world-wide profits. The result is that the young technicians - average age is only about 25 - remain unusually loyal to the company.

"We have been fabulously successful. We erased our accumulated deficit as early as April 1993 and we were making money one and a half years ahead of schedule," he says. Komag believes Mr Tan, represents the manufacturing future for Penang and Malaysia. "As wage costs surge more and more simple assembly operations are planning to move out. I know of at least four companies which have drawn up plans for relocation," he says.

But he warns that Malaysia does not, currently, have the human resources to replicate the Komag model on a wider scale. At national level he thinks that the practice of encouraging "twinning" with colleges from Australia or America is not working because too many people are taking the "wrong" subjects like management and account-

ing and not enough are doing technical and science subjects. "Don't forget when we were recruiting we employed only 9 out of 100 applicants; this country has got to work on the other 91," says Mr Tan.

Through the Penang Skill Development Centre the company is helping to raise the general pool of vocational skills in the area. In a few months Komag will be drawing on that pool. The 230,000 sq feet of plant is being supplemented by another unit of 130,000 sq feet, and the number of lines will grow from three to seven. It is the answer to Dr Mahathir's prayers.



Manager Thian Hoo Tan: the brains behind the plant

The colourful banners flitting over the entrance to what seems like every other Malaysian factory signify an increasingly rare phenomenon: a seller's market for labour.

The banners invite passers-by to walk-in interviews for a wide range of production jobs, with no previous experience required. The lack of Malaysians taking up the invitations is, however, stoking the debate about how the country shifts from assembly-based operations - premised on cheap labour - to a high wage, high value-added, manufacturing base.

The country has reached full employment (unemployment this year will be below 3 per cent of the 8m workforce) six years before planned, with jobs growth outstripping labour force growth 3.3 per cent to 2.8 per cent since 1988.

The difficulty of finding workers is a constant refrain of Malaysian businessmen. And when workers are found they often have that bothersome self-confidence associated with full employment. "When they come it is not us interviewing them it is them interviewing us about fringe benefits," says an exasperated Chinese business leader.

Not surprisingly, wages have been rising rapidly although there is some dispute about how rapidly. In the electronics sector, official surveys show

wages rising at over 10 per cent per year while inflation hovers around 4 per cent.

But electronics workers are an elite benefiting from big productivity increases and booming demand in the mainly foreign owned plants. They comfortably top the monthly average earnings table on \$886, ahead of furniture workers. On some estimates average monthly earnings for the 300,000 electronics workers are over \$950,000.

The picture for the economy as a whole is less dramatic with the Manpower Department estimating that earnings increased by only 5 per cent in the economy in 1993, compared with 8.7 per cent in 1992. But it is not clear whether those figures capture the growing array of fringe benefits or the 10 per cent annual seniority increments usually built into collective agreements.

Collective bargaining only covers about 20 per cent of the workforce, but the figure is closer to 50 per cent in the manufacturing sector which has just overtaken agriculture, forestry and fishing as the biggest category of employment, now covering about 25 per cent of the working population.

Nevertheless, Malaysia's rather dispirited trade unions cannot claim much of the credit for the full-employment generated wage pressure. One measure of that pressure is the dramatic rise in job-hopping

with its next door neighbour, a textile plant owned by Bangladeshi Knitex, could not be "highly skilled". Knitex employs 4,000 people to generate annual sales of \$550m; Komag employs 600 people to produce annual sales of \$327m.

Even within the electronics sector Komag is rare. Most of Penang's electronic companies import products which have had 60 to 70 per cent of the value added already in Japan or US, with the Malaysians merely finishing and testing.

Komag, on the other hand, takes a piece of the middle cost, with a hole in the middle costing about \$5,140 and, after processing it, sells it for about \$5,810.

The managerial brains behind the plant is a typical product of Malaysia's cosmopolitan elite.

Mr Thian Hoo Tan, 46, worked in the US for 18 years before returning to Malaysia to manage the plant. Before that he was at the University of Malaysia where he roomed with several people who are now in the cabinet or chief ministers of Malaysian states.

For Malaysia it certainly sets new standards of technological sophistication in clean room technology and automation. The plant, which is more like a hospital than a factory with busy people hurrying about in scrubs-like uniforms, currently produces about 30,000 1-gigabyte disk drives per day. The value-added contrast

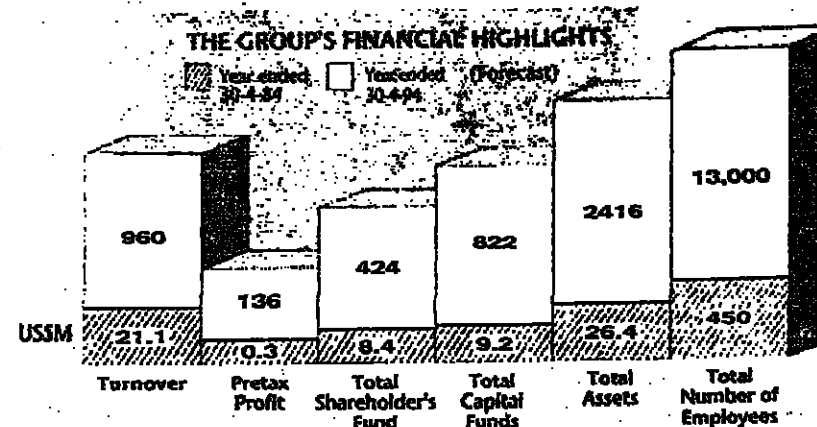


# STRENGTH IN DIVERSITY

Berjaya is a Malaysian-based conglomerate with assets totalling over US\$2.4 billion, turnover of US\$960 million, and a staff strength of 13,000. Both in Malaysia and in countries beyond its native shores, Berjaya has demonstrated a unique formula for business success.

Now we seek further opportunities for successful joint-venture partnerships, both in our core businesses as well as in new, hitherto unexplored business arenas.

If you are considering entering or expanding in Asia, talk to us: we may be the right partner for you.



## MESSAGE FROM THE GROUP CHIEF EXECUTIVE OFFICER

In recent years, Malaysia has seen an unprecedented growth resulting from many factors including sound management by our government, the country's good work ethics, a readily trainable workforce and strong investors' confidence.

Berjaya has also responded to and benefited from this conducive business climate through expansion, acquisitions and new start ups.

Our commitment to building

expertise and quality through training and embracing technology, has given us a strong foundation to respond to new opportunities, not just in Malaysia, but overseas too.

We will continue to develop our core businesses and respond to our government's plans and visions for Malaysia.

As we embark on another important phase of growth, we will continue to pursue business alliances

through joint ventures and partnerships. I believe we are good business partners, so if you have the desire to expand into Malaysia or have international ventures, do give us an opportunity to work with you.

Yours sincerely,

Tan Sri Dato' Vincent Tan Chee Yoon

## CONSUMER MARKETING

- Singer Malaysia: wide range of household products under world-renowned Singer brand.
- Unza Malaysia: body care, household cleansing & detergent products.
- Cosway Malaysia: direct-selling of cosmetics, health supplements and fashion accessories.

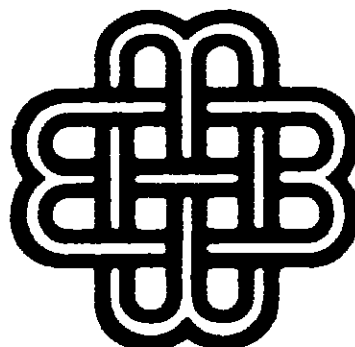


- HVN: Exclusive licensee to distribute Warner Bros, Walt Disney, Sesame Street and Columbia Tristar home video products.

## GAMING

- Sports Toto: lottery operations in Malaysia.
- Berjaya Lottery

Management (HK): Lottery management services in China, Philippines & other countries.



# BERJAYA

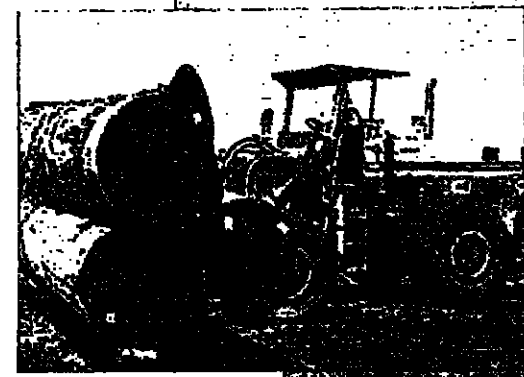
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**UNZA HOLDINGS BERHAD**  
**BERJAYA HOLDINGS (HK) LIMITED**  
**INTERNATIONAL LOTTERY & TOTALIZATOR SYSTEMS INC.**

## OTHER INTERNATIONAL VENTURES

- China:
  - Infrastructure, property & real-estate development such as Berjaya Shenyang International Golf Club, Beijing Zhongcai Printing Co. Ltd and the 2nd Nanjing Bridge across Yangtze River.
- USA:
  - International Lottery & Totalizator Systems, a NASDAQ-quoted company, manufacturing computerised ticketing systems and lottery management.
  - Roasters Corp., franchiser of Kenny Rogers Roasters Restaurants.
  - Satellite Technology Management, Inc., a NASDAQ-quoted company, specialising in the design, manufacture and marketing of satellite and radio communications products.
  - Roadhouse Grill, Inc., operator and franchiser of Roadhouse Grill service restaurants.
- Solomon Islands
  - Logging rights to over 600,000 hectares of forest concessions.
  - Development of timber processing complex comprising sawmills, moulding and kiln drying plants, plywood mills and particleboard mills.
- Hong Kong:
  - Berjaya Holdings (HK) Ltd, a property investment company quoted on the Hong Kong Stock Exchange.
- Asia-Pacific:
  - Exclusive rights for Kenny Rogers Roasters Restaurant, an American fastfood chain.

## INDUSTRIAL & INFRASTRUCTURE DEVELOPMENT

- Inokom: joint venture with Hyundai Motor Co. (Korea) to manufacture light commercial vehicles.
- Indah Water Konsortium: 28 years concession rights to upgrade and operate a nation-wide sewerage treatment system.
- Timber Division: timber concessions and manufacture of top quality timber products.
- TopGroup Holdings:
  - Manufactures and distributes commercial and home air-conditioning systems.
  - Owns the heating, ventilating, air-conditioning and refrigeration division of Dunham-Bush, Inc.
- LeRun Group: manufactures bicycles for Malaysian and export markets.
- Textile Division: fully integrated textiles and garment manufacturers.



## PROPERTY

- Commercial properties.
- Development of residential and commercial properties.
- Development of holiday resorts, golf courses and country clubs.

## FINANCIAL SERVICES

- Insurance companies:
  - Berjaya General Insurance
  - Berjaya Prudential Assurance
- Securities brokerage firms:
  - Inter-Pacific Securities
  - Eng Securities
  - United Traders Securities.



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## MTV lends an ear to the baby boomers

"Hope I die before I get old" ran the too-often quoted line, "gotta leave a good-looking corpse" urged another, but nobody actually meant it. Rock music has not only come of age, it is starting at its seething jowls in the mirror every morning and preparing to apply for its free bus pass. And yet, the myths of teenage fervour and adolescent yearning die hard.

"Rock music is part of the passion of being young," explains Bill Roedy, president of MTV Networks Europe, and he should know, the 24-hour music channel reaches 60 million households in 33 countries, a joyous trans-global celebration of mindless riffs and instantly forgettable pop.

But where does that leave the armies of baby-boomers for whom it all meant something more? Faced with the choice of Rolling Stones decrepitude and the infantile whining of freshly-forged heart throbs, where does one turn? Do all roads have to lead to Phil Collins?

Roedy is sympathetic, and has an eye for a gap in the market. Next month, MTV Europe is launching VH-1 in Britain, a new channel designed to cater for the 25-49 year-olds who form the bulk of today's rock audience. Its slogan - "Music That Means Something" - plays unashamedly on the nostalgia felt by the generation who once thought that Country Joe and the Fish were responsible for the US defeat in Vietnam, although at least 50 per cent of the channel's output will be new music.

VH-1's director of programmes, Brent Hansen, promises there will be no room for rap, hip-hop, techno or heavy metal. "We are aiming for people who may occasionally watch MTV, but almost feel like visitors.



Bill Roedy: peddling nostalgia

They need their own heartland, their own emotional base. They don't want to be patronised, and they want to keep in touch with what is happening. We are also talking about the generation which grew up with punk - they have owned the music world."

The success of oldie music magazines such as "Q" and, more recently, "Mojo", as well as 18 fruitful months of market research have been encouraging signs for the new channel. Hansen says the research identified a musically literate audience anxious for hard information and pointers to new trends. "They have come into all the megastores, they have finished buying their greatest hits compilations and now want to find out more."

Programming will be much less frenetic than that of MTV, with experienced presenters (which include Nicky Horne, Paul King, David Hepworth and Tony Vance) providing background and context

to the records they will be playing. "If we feature a country-rock band, we might look at The Byrds and Gram Parsons, without being too train-spotterish about it," says Hansen. The channel is currently negotiating to acquire rights to the "Old Grey Whistle Test" archive, and live footage from the pre-video era will also be used.

One unwanted side-effect of the new channel may be to pull young viewers away from MTV. "That is not our intention, although we are aware that, with young males, there is a heritage angle to this," says Hansen.

Paul Du Noyer, editor of "Mojo" (slogan: "The Magazine for People who know Rock'n'Roll") says his readership includes many in the 18-25 age group who are keen to discover for themselves some of the less familiar names of the past, such as Nick Drake or Tim Buckley. "They believe that the great music of the past has an enduring validity. Consequently, the audience for rock music is ever-broadening."

A happy meeting-point, then, for advertisers, record companies, disposable income and consumers seeking to spice up their entry into middle age. Rock music has achieved the extraordinary and enviable position of constantly redefining its own standards and borders. On an early pilot of VH-1 shown to groups of potential viewers, a presenter refers to a "classic" Rolling Stones track from 1981. The truth is that, by 1981, most of the group's fans considered them already to be about 10 years past their "classic" years. So what does that make them in 1994? Old, old, old.

Peter Aspden

## Abstract virtues

Once invented, abstraction was never going to go away. Rather like the wheel, it was just too useful. It made life so much more simple and straightforward. Other preoccupations may come and go, conceptualism commands our critical attention for a while, postmodernism shoots across the sky, figuration be apparently revived; yet always, there will be serious artists making abstract paintings. Speculation about the death of abstraction will always be just loose talk.

But it is one thing to continue active, quite another to remain important. Is the currency of abstract painting, beyond the mere fact of its survival, worthy of our critical attention? On present evidence the answer is clearly yes. The paradox of abstract painting, is that the apparent simplicity of choice presents the artist with real difficulties. The external references by which the figurative artist persuades us of his merit may be absent - and the abstract painter may not relish them - but the underlying constraints common to all painting remain.

Order, structure, colour, form and surface, light and space, are there as ever to tease and confound him, and all the more so by the fact that he has brought them on himself. A single stroke of paint laid upon the bare canvas will conjure up visual space that extends within and beyond that surface-plane as far as the imagination will take it. Each further mark will qualify and elaborate that space, each colour hold itself in its particular spatial and formal relation to the next and to the painting as a whole. The paint itself must be manipulated and con-

trolled, the painted surface sustained in its entirety; and the eye must be held here and shifted there through the whole complex and subtle course of the work.

The show at Flowers East, which fills the galleries on both sides of the road, is of particular interest not just for representing so many of the most important of our abstract painters, but for doing so by recent and substantial examples of their work. It is a generous survey, an effective collaboration between a number of London's principal gal-

**Two London shows celebrate a side of British art which has never been fully appreciated, writes William Packer**

eries and burdened by no narrower principal than the quality of the work. Alongside the ebullient and expansive expressionism of Albert Irvin and Patrick Heron, or the heavy calligraphic figures of John Hoyland, or the dense impastos of Gillian Ayres and Alan Gouk, are set the quietest near-minimalism of Edwin Leaper's grey stripes, or Ian Tyson's sparsely stated rectangles in blue and white, or Trevor Sutton's exquisitely worked orange square set in a red disc.

There are any number of beautiful things - from Noel Forster, Prunella Clough, Sean Scully, Carol Robertson, Alan Green, Clyde Hopkins, Sandra Blow, John McLean, Michael Ginsborg. There are no duds. As for omissions, I think of

Barry Cooke, Peter Joseph, John Hubbard - but it is a measure of the show's success that they are so few. The new Richard Smith is a particular treat, for apart from a small show at Feigen in the summer, he has been seldom seen in London in recent years.

Overall this is an exhibition of museum standing, which one of our vaunted public institutions might have put on and toured abroad, had it had the nerve or wit. Almost as much may be said of the show, from the collection of Robert Loder, that has come to Atlantis from the Bode Gallery at Jarrow. It has a more historic dimension, going back to the 1960s, and a more personal and miscellaneous character, with one or two artists such as Hoyland, McLean and the late Brian Fielding being especially well represented.

The contemporaneity of the Flowers show gives it a more immediate relevance, but that at Atlantis is none the less worth seeing. Together they celebrate a quality in British art that we have never fully appreciated, let alone celebrated properly ourselves. Were we really so much in awe of American and Continental abstraction all those years ago that we could not see what was under our noses? Technical probity, imaginative authority and a modest lack of historicism and self-indulgence: such virtues shine out in a naughty world, yet here they are commonplace.

**British Abstract Painting: Flowers East, 199 & 282 Richmond Road, Hackney E8, until September 11. Lead and Follow - The Continuity of Abstraction: Atlantis Galleries, 146 Brick Lane, Whitechapel E1, until September 11.**



Hippy heaven: Michael Chance as Oberon

## Roots of Cunningham and Morris

Mark Morris, whose *L'Allegro, Penseroso, Moderato* has been the glory of this year's Edinburgh Festival, has been known to say that the living choreographer he admires the most is Merce Cunningham "whom I love more than I love God". Could two choreographers be less alike? And yet I am more sure that these two are great artists than I am about any other artists alive. Now, only six days after the last performance here of *L'Allegro*, the Edinburgh Festival (after 15 years) has brought back the Cunningham company. The two works they are dancing are by no means Cunningham's finest - whereas Morris has never surpassed *L'Allegro* - and yet they plunge us deep into the extraordinary experience that Cunningham alone affords.

But let me first proceed a little further with the Morris-Cunningham comparison and contrast exercise. Morris's works take their roots from music, and they keep drawing from music, whereas Cunningham's exist independently from the scores that accompany them. In the Morris world, people belong first and foremost to a large community; though they have some existence as soloists and in small ensemble groups, they seldom develop any

sustained one-to-one relationships in duets. In Cunningham's world, by contrast, people are seen as private soloists above all, each dwelling in his or her private space; solos are frequent and powerfully individual, and duets more remarkable yet in the many ways they show interaction between two utterly distinct lives.

Morris's dancers are vividly human, and he often excels in showing a large ensemble of people all sharing the same vital human impulse. People, however, are only one part of Cunningham's vision, and his stage seems often to be a view of flora and fauna - now as seen by some travelling safari camera, now through the window of an aquarium. Morris's rhythms are lyrical, full of cantilena fluency, and often marked by a thrillingly regular pulse; Cunningham's rhythms are irregular, staccato, unpredictable, sustained by the coolest but most powerful current of phrasing. Morris's works have beginnings, middles, and ends; whereas Cunningham's usually give us the illusion that the curtain and the wings are preventing us from seeing a longer and larger moving canvas.

Perhaps, however, the differences between Cunningham and Morris only reveal a more profound simi-

larity. In both, we are seeing broad and probing views of the world. We see human energies refined to exceptional levels of mastery. We are, in fact, watching classical art, which almost nobody else in the world makes any more. *Cargo X*, the first and shorter of the two works shown here this year by Cunningham, is one of his more daffy constructions, with a certain silly use of flowers and a staid, old-fashioned symbolism everywhere. (Those who look for symbolism everywhere can waste a lot of time on this kind of nonsense.) And yet hardly has the curtain risen than we are off into an enthralling solo, in which (at the performance I watched) the great Frederic Gaffer swings in the air between huge, hanging jumps of alternating convex and concave shapes. At once rhythm and space and human energy are made vital in the ways only Cunningham knows.

*Cargo X* and *Enter* are accompanied by two of the most stuporously cacophonous scores I have ever heard. Usually I can take the Cunningham sound-world in contentment, but David Tudor - an abstract expressionist of music whose works I have sometimes admired - has made music for *Enter* in which whole gaggles of geese protest at the passing of whistling V2 rockets, computers

welcome change from the current fashion for opera productions in all-pervading grey.

Having set the scene so skillfully, Lohmann was ready to probe the emotional issues at the heart of the opera, but did he do so? In the tender scene where Tatyana and Boris settle down on the bower for a mutual scratching session (to music from Britten of surprisingly sensual lassitude), no suggestive hint of hidden desire broke the surface. Lohmann just played the scene for laughs.

And that - unfortunately - is what happened through most of the opera. Elisa Wilson's Helena was a nymphomaniac in jodhpurs, mercilessly pursuing an army officer Demetrius, who was strongly sung by Paul Whelan. Ian Bostridge played Lysander as a chinless civil servant in love with the limpid upper-class Hernia of Kirsti Harms - caricatures all. When Puck says, "What fools these mortals be!", one had no option but to agree.

The rustics formed the amateur dramatics group from the local army base, a sit-com assortment of marching men in khaki shorts, with Michael Martin's sordid flute as camp goof. Every old knockabout pantomime routine was in their army rule-book, but at least they had brought a good band along to play. The Scottish Chamber Orchestra, in red army uniforms on the bandstand, was expertly conducted by its moustachioed sergeant major, Roderick Brydon.

Subtle this show was not, except perhaps for the fairies. I could have strangled Tyler Coppin's camp-not-the-word Puck long before the end, but Kathryn McCusker looked beautiful in Tatyana's sari and Michael Chance's Oberon, with waist-length hair and pointed fingernails, was the epitome of Indian culture as hippie heaven. As his haunting counter-tenor led the final ensemble, Britten's music worked its magic afresh.

Richard Fairman

Sponsored by Bank of Scotland

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

Concertgebouw Tonight: James Judd conducts European Community Youth Orchestra in works by Bartok and Mahler, with violin soloist Kyung-Wha Chung and soprano Charlotte Margiono. Tomorrow: Karel Young Symphony Orchestra plays Khachaturian and Tchaikovsky. Fri and Sat: Kyri Kondrashin Music Competition, with Radio Philharmonic Orchestra. Sun morning: Vassili Siniaski conducts Hague Philharmonic Orchestra in Verdi, Liszt, Brahms and Tchaikovsky, with piano soloist Love Derwinger. Sun evening: Gustav Leonhardt conducts Orchestra of the 18th Century in Haydn and Mozart, with soprano Cynthia Sieden. Next Tues: Los Angeles Philharmonic. Next Wed, Thurs: Chally conducts the Royal Concertgebouw (24-hour information service 020-675 4411 ticket reservations 020-671 8545) Muziektheater Sat: Netherlands Opera opens its 1994-5 season with David Pountney's ENO production of Lady Macbeth of Mtsensk, conducted by Hartmut Haenchen,

### BRUSSELS

Monnaie Tomorrow, Fri, Sun and next Wed: Antonio Pappano conducts Karl-Ernst and Ursel Hermann's production of La traviata, with cast headed by Elzbieta Szymka, Laurence Dale and Victor Ledbetter (02-218 1211) Lantheater Fri, Sat, Sun and next Wed: Roesa, the dance troupe of Anne Teresa De Keersmaeker, performs Toccata, set to music by Bach (02-218 1211) Palais des Beaux Arts Sun: Esa-Pekka Salonen conducts Los Angeles Philharmonic Orchestra in works by Beethoven, Liszt and Sibelius (02-507 8200)

### CHICAGO

The Lyric Opera re-opens on Sep 17 with Boris Godunov starring Samuel Ramey. The season also includes Graham Vick's new production of The Rake's Progress, Fedora with Freni and Domingo, Il barbiere di Siviglia with Thomas Hampson, John Cox's staging of Capriccio, Bernstein's Candide, Alda and Siegfried (312-332 2244)

### GENEVA

Hugues Gall's final season at the

Grand Théâtre opens on Sep 12 with a new production of Idomeneo, conducted by Armin Jordan and staged by Christopher Alden, with a cast including Johan Botha, Solveig Kringsjorn and Paul Groves (repeated Sep 15, 17, 20, 23, 26 and 29). The season also includes The Barber of Seville, La bohème, Nabucco, Götterdämmerung, Die Walküre, Don Quixote, Gounod's Faust, I Puritani and Gluck's Orfeo (022-311 2311)

### LINZ

The annual Bruckner festival in this Austrian town (Sep 11-Oct 2) opens with Riccardo Muti conducting the Vienna Philharmonic in Bruckner's Seventh Symphony. Giuseppe Sinopoli conducts the Philharmonia Orchestra in two concerts, and the Orchestre de Paris will play Bruckner's Ninth under Semyon Bychkov. Marek Janowski will direct a concert performance of Wagner's Lohengrin, with a cast headed by Peter Seifert and Eva Johansson. Other visitors include the Hagen Quartet, Christian Zacharias, Simon Estes and Maurizio Kagel. The final two concerts will be given by the London Philharmonic under Franz Welser-Möst (0732-775230)

### LUCERNE

The Lucerne Festival continues till Sep 10. Tonight's concert, by the Royal Concertgebouw Orchestra under Riccardo Chailly, features works by Stravinsky and Mahler. Claudio Abbado and the Berlin Philharmonic play Mahler's Ninth Symphony tomorrow and a Russian programme on Thurs. John Eliot

Gardiner conducts the English Baroque Soloists and Monteverdi Choir in a Mozart choral programme on Fri, followed on Sat by a Beethoven programme with the Orchestre Révolutionnaire et Romantique. On Sun morning, Daniel Barenboim conducts the Berlin Staatskapelle in the first act of Wagner's Die Walküre, with Tine Kiberg, Siegfried Jerusalem and John Tomlinson. Barenboim also conducts Verdi's Requiem next Mon evening. Among the visiting ensembles later next week are the Dresden Staatskapelle with Colin Davis and the Vienna Philharmonic with Riccardo Muti (041-233080)

### MONTREUX

The Montreux Festival continues till Sep 23. Radu Lupu is soloist tomorrow with the Royal Concertgebouw Orchestra conducted by Riccardo Chailly. Marek Janowski conducts the French Youth Orchestra on Fri and Sat. Ton Koopman directs the Amsterdam Baroque Ensemble next Mon in works by Haydn and Mozart. Other visitors next week include the Moscow State Symphony Orchestra under Pavel Kogan and the Orchestra of La Scala under Carlo Maria Giulini (021-863 5450)

### UTRECHT

EARLY MUSIC FESTIVAL. The Holland Festival has organised a series of performances by early music specialists at the Vredenburg concert hall, daily till Sunday. Among the artists appearing are La Simphonie du Marais in a Handel and Lully programme, Concerto Köln

In Salari and Rosetti, the Amsterdam Baroque Orchestra playing Haydn and Mozart under Ton Koopman, the Orchestra of the 18th Century under Gustav Leonhardt and Les Arts Florissants under William Christie (030-314544)

### VIENNA

● The Staatsoper will remain closed for technical alterations till Dec 14. The Volksoper opens its new season on Thurs with Die Fledermaus (51444 2968/51444 2959/513 1513) ● The Burgtheater and Akademietheater resume repertory performances on Thurs. Chelkova's Three Sisters heads the bill at the Burgtheater. The Akademietheater has a new production of Shakespeare's Titus Andronicus, first night Sep 10 (51444 2968/51444 2959/513 1513) ● The main orchestral programme at the Musikverein begins in late September with concerts by the Orchestre de Paris and Finnish Radio Symphony Orchestra (505 8190)

### WASHINGTON

THEATRE ● Carol Channing stars in the musical Hello, Dolly! at Wolf Trap, opening tonight and running daily till Sun (703-255 1800) ● Night of the Iguana, Tennessee Williams' poetic drama set in a Mexican resort, runs till Sep 11 at Onye Theater (301-924 4485) ● Goodnight Desdemona, Ann-Marie MacDonald's popular spoof on Shakespeare, runs till Oct

16 at Woolly Mammoth Theater (202-383 3939)

● Miss Saigon, the musical love story set against the background of the Vietnam war, runs daily except Mon at Kennedy Center Opera House (202-467 4600) ● Into the Woods, the musical by Stephen Sondheim, runs till Sep 17 at Sifford Theater (703-820 9771) CONCERTS ● The National Symphony Orchestra's new season at Kennedy Center Concert Hall opens on Sep 8 with the first of three concerts conducted by Leonard Slatkin (202-467 4800) ● Kyung-Wha Chung is violin soloist at the opening concerts of the Baltimore Symphony Orchestra's new season on Sep 16 and 17 at Baltimore's Joseph Meyerhoff Symphony Hall (410-763 8000)

### ZURICH

Opernhaus The 1994-5 season opens on Thurs with a gala performance of Tosca, starring Mara Zampieri, Neil Shiochi and Ruggero Raimondi (repeated Sep 4, 8, 11, 15, 21 with Giorgio Zancanaro replacing Raimondi for some performances). The first new production of the season will be Mascagni's L'Amico Fritz, opening on Sep 9 in Winterthur. The opening month also includes Fuzsika, Die Zauberflöte and a new production of La Cenerentola (first night Sep 17). Carlo Bergonzi gives a song recital on Sep 12 (01-262 0903) Tonhalle Claus Peter Flor conducts the Tonhalle Orchestra in the last of three Beethoven concerts on Fri, with piano soloist Rudolf Buchbinder (01-261 1600)

### ARTS GUIDE

Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

### European Cable and Satellite Business TV

(Central European Time) MONDAY TO FRIDAY NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY NBC/Super Channel: FT Reports 1230.

TUESDAY EuroNews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY NBC/Super Channel: FT Reports 1230

FRIDAY NBC/Super Channel: FT Reports 1230 Sky News: FT Reports 0230, 2030

SUNDAY NBC/Super Channel: FT Reports 2230 Sky News: FT Reports 0430, 1730.



The spectacle of apparently wealthy people being granted legal aid to fight UK court cases and then running up bills of thousands, if not millions, of pounds to be met from the public purse is sparking controversy inside, as well as outside, the legal profession.

Last week the Law Society, the UK's professional body for solicitors, proposed ways of closing loopholes in legal aid rules enabling the wealthy to claim state support.

Its move follows a number of controversial cases, notably that of Dr Jawad Hashim, the Iraqi businessman who, despite owning six luxury homes, has so far received £4m in legal aid for his civil court battle with his former employer, the Arab Monetary Fund, economic watchdog for the Arab League. The AMF successfully claimed Dr Hashim embezzled \$30m belonging to the fund.

The government's Benefits Agency, which assesses legal aid claims, disregards disputed assets when deciding if applicants need financial help - and the size of the AMF's claim against Dr Hashim meant most of his assets were disputed.

Legal aid given to many of the City's fallen heroes in criminal cases has also provoked criticism. Where they have been declared bankrupt - though their lifestyle may be supported by friends or relatives - they have qualified for legal aid.

Given the size and complexity of many fraud trials, the sums involved can be large. At the weekend, legal aid in the trial of Roger Levitt the financier sentenced to 150 hours of community service for fraudulent trading, plus three co-defendants, was confirmed by government law officers as having exceeded £2m.

Mr Wallace Duncan Smith, the former City banker jailed for fraud this year, set a record for the amount of public money spent simply on accountants for his defence - £230,000. The trial of Kevin and Ian Maxwell, scheduled for early next year, looks likely to produce a total legal aid bill running into seven figures.

Defence lawyers insist defendants in criminal trials have to be given the resources to prepare their cases - and that bankrupt bankers should be treated in the same way as the less well off. They add that because a personal contribution is often demanded even when legal aid is granted, the system is not a "free ride".

But such arguments are hard to sustain amid the contro-

## Cheap ride on trial

John Mason on proposals to close loopholes in the UK's legal aid system

Very over recent cuts at the other end of the legal aid spectrum. Anxious to control the fast growing legal aid budget - expected to increase by 15 per cent to £1.4bn this year - Lord McKay, the Lord Chancellor, has restricted eligibility for the some of the poorest applicants, leaving many, say his critics, without access to the law.

Cuts have fallen hardest on the "green form" scheme which provides two hours of free legal advice for relatively straightforward civil cases such as family disputes - the

**'Government cuts mean many living just above the poverty line can't afford legal aid'**

type of action in which those on low incomes are most likely to be involved. While people earning up to £145 a week used to be able to use the scheme, that limit has been cut to £70.

Mr Russell Wallman, head of professional policy at the Law Society, says the contrasting treatment of the poorest applicants and the apparently wealthy makes legal aid arrangements seem a "racket". Mr Charles Ely, Law Society president, says: "Government cuts have meant that many people living just above the poverty line are no longer able to afford legal aid. That makes it particularly galling to see many apparently wealthy individuals getting legal aid through loopholes in the rules."

The society suggests the legal aid system should be reformed to take more account of applicants' lifestyles, and increase pressure on the seemingly affluent to explain all income sources. Mr Wallman suggests those relying on

wealthy relatives and friends should have to use some of these resources to fund their legal costs. Implementing this approach, he says, would not be easy. Could a friend who, for example, takes an applicant to a restaurant be expected also to pay his legal bills? But in principle it would be no less harsh than denying legal aid to those falling just outside the current eligibility limits.

A more practical measure proposed by the Law Society, which could be implemented fairly quickly, is to take account of the value of applicants' homes when assessing their eligibility. The society does not suggest people should have to vacate modest homes to fund litigation. But it does not see why someone with substantial equity in a home should not have that taken into account.

The society suggests a ceiling on the amount of equity that should be disregarded - perhaps in the range of £100,000-£150,000. "If that means somebody has to move somewhere more modest, I don't think that is unreasonable," says Mr Wallman.

In civil actions, as in the Hashim case, the Law Society says it should be possible for legal fees to be paid out of the funds at stake. This would reverse the practice of disregarding disputed assets. The society also urges the courts to make standard the practice of releasing money to pay legal fees when imposing freezing orders on assets.

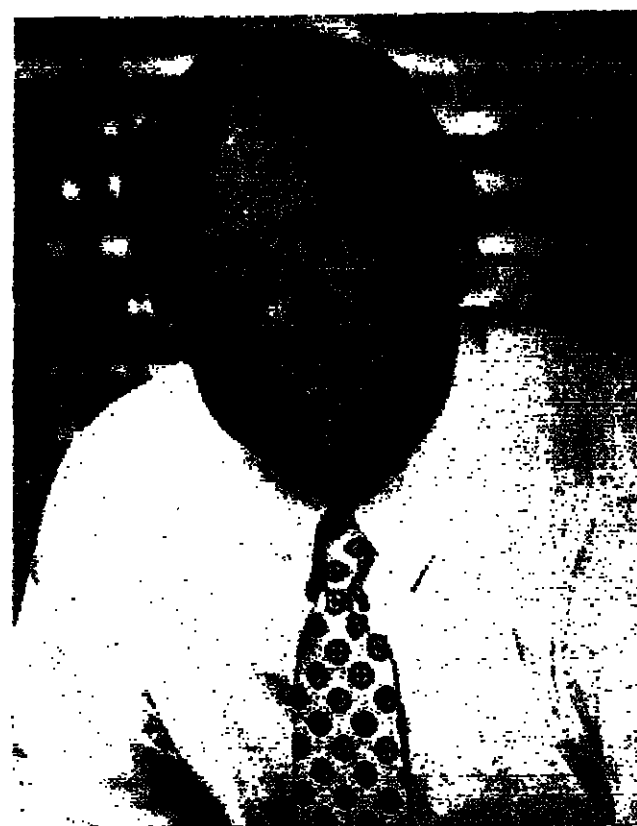
The society argues the financial savings via its proposals could be significant, even though the number of applicants affected would be in the hundreds or low thousands. "The money saved would be in the tens, rather than hundreds, of millions of pounds," says Mr Wallman. Such sums could help many applicants at the bottom of the income scale.

The Law Society's proposals have been submitted to the Lord Chancellor. Though the society has clashed with Lord McKay over the latter's attempts to curb the legal aid budget, there are signs that their thinking is now more in line: law officers have hinted in Parliament they see the case for reforming legal aid rules affecting the better off.

For the government, anxious to control public spending, the Law Society's proposals have one big attraction: ending the controversy over payouts to the well-off would make it politically easier to curb growth in the overall legal aid budget.

## THE FT INTERVIEW: Barry Diller, chairman of QVC

### TV thriller - back after the break



Barry Diller: 'The world has heard enough from me for a while'

Barry Diller is saying No at the moment, frequently and clearly. In the past 18 months, entertainment executive Mr Diller has invested in an obscure US-based home shopping television channel called QVC and made nearly \$100m. He has also failed to take over Paramount (the Hollywood studio) and has proved unable to make a merger with CBS (the US broadcaster) stick after a big QVC shareholder objected to the deal. Now, seeing no role for himself at QVC, he is about to be out of a job.

Employment offers and ideas for possible deals are coming in fast and Mr Diller - for now - is saying No to them all. "Things come up but I am trying to push opportunity away from me for at least a few months," he says.

He was being interviewed at the Edinburgh Television Festival at the weekend - somewhere he would have preferred not to be, but he had promised to make a speech so he turned up. For the previous 10 days, Mr Diller, one of the most frenetic and forceful executives in the entertainment industry, took himself off to a beach house in California and put his career on hold.

"I want to... really learn from what I have just gone through," says Mr Diller. "The world has heard enough from me for a while. I want off stage. I want out of the light."

The reflective mood is striking from a man who has known little but success - from creating the "Movie of the Week" concept on US television as a young executive in the industry, to running Paramount for 10 years, to launching the Fox Television network in the US for Mr Rupert Murdoch. Now he has to come to terms with failure.

"While I have all the explanations in the world and I have learned a great deal, the fact of the matter is I did try to buy Paramount and in the end didn't, and I did merge with CBS and I got stopped and that's that," says Mr Diller.

He was more succinct in his first comments after the Paramount failure earlier this year. "They won. We lost. Next!" he said then. But now Mr Diller feels that after a second blow - the loss of the CBS deal - it is not going to be so simple to move on.

In particular, he feels he has to learn the lessons of the bruising experience of being

involved in his first large-scale, hostile takeover.

"While I had been around Wall Street, I didn't really know anything about it - about real playing and that kind of big-ticket investment banking and the arbitrageurs," Mr Diller concedes.

The 52-year-old executive, whose initial \$25m stake in QVC has risen in value over the last 18 months to \$18m, insists he could have bid high enough to take Paramount from Mr Sumner Redstone's Viacom broadcasting group, whose interests include the MTV channel. He simply refused to pay what he regarded as too high a price. "I just looked at the assets and knew it wildly wasn't worth it," says Mr Diller. He says he turned down, as too risky, a proposal to raise extra money by borrowing against QVC's future share price - which he would have had to guarantee.

But the real turning point, he says, came in a meeting with 15 arbitrators who at the time held 30 per cent of Paramount. Mr Diller started to tell them about his plans for Paramount, but that was not what they were interested in. He remembers one saying to him: "Stop talking to us. We don't want to hear your ideas. Give us a nickel more and we will all go home" - although, with Paramount's stock price then bouncing above \$90 a share, the 5 cents was probably only a figure of speech.

"I am quite happy I didn't do it [Paramount]. I am not happy with the CBS proposition," says Mr Diller, referring to his subsequent attempt to merge with the television network in a deal that would have gone a long way towards fulfilling his ambition to run a big media concern.

The main problem was that Mr Ralph Roberts, chairman of Comcast, a minority QVC shareholder, did not think a cable company such as his should be tangling with a network broadcaster. Mr Diller told Comcast that, if it wanted to stop the deal, it could always buy QVC. Mr Diller says he promised that, if it did,

he would treat its bid with respect. "They [Comcast] did. We did. Larry Tisch [chairman of CBS] walked out. It was over. Instantaneous," says Mr Diller, in his best machine-gun delivery. Comcast was joined in taking over QVC by Liberty

**Diller feels he must learn the bruising lessons of his first big hostile takeover**

Media, another cable company. In his Edinburgh speech, Mr Diller managed to sum up his recent experiences with a measure of wit. With tongue firmly in cheek, he explained he was still secretly working for Mr Murdoch, and had been enormously successful in undermining the balance sheets of two major rivals, Paramount and Viacom.

Getting into his stride, Mr Diller suggested in his lecture that he was "clearly a tonic" to "old men" in the US media industry. "Sumner Redstone, Larry Tisch, Ralph Roberts... are all in their 70s, and there is no-one who can't say they haven't been rejuvenated by having me briefly in their lives," Mr Diller said.

Whose life Mr Diller will rejuvenate next is likely to remain uncertain for some time, but he has dropped two large hints about his intentions.

First, he suggests that in the future he wants to be in overall charge of any project. He left Fox three years ago after telling Mr Murdoch that he wanted to be a principal and own stock in The News Corporation. Mr Murdoch said there could only be one principal in the group - himself.

"Will I or will I not work with other people?" Mr Diller asks. "I will, or I won't... But

one thing I doubt that I will ever do: I just don't think I will get myself in a situation where I can't prevail."

The second clue lies in his continuing interest in "the truly radical transformation" taking place in the media industries. After leaving Fox he spent 10 months searching for a chance exploit an under-covered investment opportunity which ended, to the surprise of many, at QVC. He saw what no one else saw in a company that sold cheap jewellery and electronics to the US television viewer 24 hours a day - that it represented the convergence of technology that most people were only talking about. QVC uses television to stimulate consumers' interest, telecommunications to take 130,000 calls a day (and sometimes as many as 300,000), and computers to organise it all and handle the inventory and make sure goods get to customers on time. But QVC, where Mr Diller is contractually obliged to remain chairman until December, has already begun to develop what he regards as a more powerful idea - "smart agent technology".

This, Mr Diller explained to his audience in Edinburgh, would involve creating detailed computer profiles of the tastes and desires of individual consumers and matching the information with goods, services and information that they are likely to want. Developing such databases, he believes, will be a more effective way of trying to merge media industries and change how people behave than Hollywood studios, publishers and telephone companies trying to invade each other's territories without really knowing what they are doing.

Given Mr Diller's current enthusiasm for the project it would be surprising if "smart agents" did not pop up somewhere in his future plans - unless his period of reflection produces an even smarter idea.

For now, Mr Diller will not be precise about his intentions. Apart from lying as low as possible to see what he can create from his experiences, Mr Diller is emphatic about only one thing: "I don't know what I am going to make of it [this experience] but I hope I won't do the obvious."

Raymond Snoddy

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Buccaneers, but not pirates

From Mr W J W Courtney.

Sir, The emotive language of your article, "Boards of utilities likened to pirates" (August 25) calls for an immediate response.

Sir Anthony Beaumont-Dark, chairman of TR High Income Trust, casts a wide net when describing directors of all water companies as giving themselves huge increases in pay and pillaging their companies.

Let me set the record straight so far as Southern Water - a company in which TR High Income Trust wisely seeks to invest - is concerned.

The majority of Southern Water's directors were recruited from the private sector. The prospectus for the sale of our shares in 1989 clearly stated that directors' salaries would be brought up to levels commensurate with those in the private sector. Some five years on, our advice from independent consultants is that these levels are still to be achieved.

We do not just control a monopoly. We operate a water business within a highly complex regulatory framework and remain accountable to a myriad price, quality and environmental regulators. We are responsible for managing a capital investment programme of some £2bn to bring up to the latest UK and EU standards our Victorian infrastructure legacy which, until recently, was neglected by politicians of all complexions.

At the same time, we have formed or acquired some 20 trading companies which are exposed to the full rigours of competition in the market place. Through these successful businesses we have, each year, added value for our shareholders and created employment during a period of recession. Fifty per cent of our total board costs are met by these non-regulated businesses. Buccaneers we may be in developing new businesses, but pirating our core business - never.

W J W Courtney, chairman, Southern Water, Southern House, Yeoman Road, Worthing, W Sussex BN13 5NX

### Public is the beneficiary of local government review

From Mr Geoffrey Filkin.

Sir, In response to your editorial, "England's local shambles" (August 25), the two-tier structure of local government has not worked well in most of shire England in spite of good members and officers at both country and district councils. The public is confused, accountability is poor and services that ought to be integrated are split between two authorities.

The public overwhelmingly contacts its local council yet its county council spends 70 per cent of the finance and is unavoidably remote, given its size.

District councils know that the Local Government Review will lead to their abolition as well as that of their county council. In spite of this, most of them back a unitary system as long as it is kept local to the people they serve.

For these reasons all three national political parties pledged to introduce unitary local government in their manifestos. It has happened in metropolitan England and is about to in Wales, Scotland and most of shire England. Geoffrey Filkin, secretary, Association of District Councils, 26 Chapter Street, London SW1P 4ND

From Councillor Brian White.

Sir, Your editorial demands a response. The review is about improving local government. It seeks to create councils that serve district communities, overcome the widespread confusion about which tier of local

government does what, and ideally produce savings in the process.

That unitary authorities will overcome confusion is irrefutable. The Local Government Commission itself calculates that significant savings will often be possible. And, in Buckinghamshire, like many other areas, there is overwhelming support for change.

The review must, therefore, be completed. Brian White, chair of the local government working group, Milton Keynes Borough Council, Civic Offices, Central Milton Keynes

From Mr John Pearson.

Sir, Your editorial stance on the local government review in England is well rehearsed.

However, I must correct an error in your leader. The commission has not conducted "postal referendums". We are sending leaflets to 12m households as part of an unprecedented public consultation exercise and, on the returns so far, we expect to receive 1m individual responses. (The Royal Commission on Local Government in England, which in the 1960s studied local government for three years, received the views of 600 individuals in all.)

All views submitted to us, together with the other factors we have to consider, will be taken into account before we send our final recommendations to the secretary of state for the environment later this year. We are not returning off-

cers in a plebiscite - but public opinion, measured in a variety of ways, will of course be important.

John Pearson, director, Local Government Commission for England, Dolphin Court, 10/11 Great Turnstile, Lincoln's Inn Fields, London WC1V 7JU

From Councillor Mrs M Duddy.

Sir, As leader of Macclesfield Borough Council, the 25th largest shire district in England, I know that the establishment of a unitary council in our area would be of great benefit to our residents and businesses. This view is shared not only by the council but also by our local business community, led by large employers such as Zeneca and Ciba, both of which have their headquarters in the Borough of Macclesfield.

Macclesfield has a population of more than 151,000, as big as many metropolitan districts. Unlike them, though, we do not control the majority of decisions affecting our area as 90 per cent of our council tax goes straight into Cheshire County Council's coffers.

The two-tier system is an anachronism which only serves to frustrate efficient and responsive local government. The proposal of the Local Government Commission to create five unitaries in Cheshire should be warmly welcomed as the opportunity to free us from the unnecessary and costly bureaucracy.

Margaret Duddy, Town Hall, Macclesfield SK10 1DX

### Baccalaureate offers more depth and flexibility

From Christian Favre.

Sir, With reference to your editorial, "A-levels fall the test of time" (August 22), any unbiased observer must agree that specialising in three subjects at the age of 16 is detrimental to a student's development and, in the long run, to the nation's economy.

However, the alternative you propose, five A-levels, with a 20 per cent lighter syllabus, is only a partial solution. Scientifically-inclined students would tend to take only maths and science subjects, while the

others would tend to take only arts subjects and languages. This system would thus run the danger of producing a large number of what is known in German as "Fachidioten".

Surely it would be preferable to introduce a system similar to that of the International Baccalaureate: students must sit six exams, English (in English-medium schools) and maths are compulsory as are one science subject, one arts subject (for example, history or economics), and one foreign language. The sixth subject

may be chosen from any of these groups. In addition, students may, if they wish, take a seventh or even an eighth subject, and a class in epistemology and an "extended essay" are also compulsory. This system has the merit of striking a good balance between a broad-based and an in-depth education while at the same time allowing a good deal of flexibility.

Christian Favre, 6 Rue de Saussure, 1204 Geneva, Switzerland

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Job Status  
☐ 1 Proprietor/Self-Employed/Partner  
☐ 2 Employed  
☐ 3 Consultant  
☐ 4 Retired  
☐ 5 Student/Unemployed

Nature of Business  
☐ 1 Financial Services  
☐ 2 Construction  
☐ 3 Other Services  
☐ 4 Transport/Travel/Communications  
☐ 5 Distribution/Retail/Catering  
☐ 6 Extraction (Oil/minerals, etc)  
☐ 7 Manufacturing/Engineering  
☐ 8 Other (Please state)

Age  
☐ 1 Under 25  
☐ 2 25-34

Types of Investment currently held  
☐ 1 Domestic Equities  
☐ 2 International Equities  
☐ 3 Overseas Deposits  
☐ 4 Property  
☐ 5 Bonds  
☐ 6 Precious Metals/Gems  
☐ 7 Unit Trusts/Mutual Funds  
☐ 8 Other International Investments

Which of the following do you have?  
☐ 1 Credit Card (e.g. Visa)  
☐ 2 Gold Card  
☐ 3 Charge Card (e.g. Amex)  
☐ 4 None

مكتبة الامم المتحدة



## FINANCIAL TIMES

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Tuesday August 30 1994

The prize of  
Mideast peace

It is still too early to be fully confident that the Middle East peace process is irreversible, but timely to assert that the prize is now almost within the participants' grasp. The symbolism of the Madrid conference in 1991, the handshake between Mr Yitzhak Rabin, the prime minister of Israel, and Mr Yasser Arafat of the PLO, and more recently with King Hussein of Jordan, could be greeted with scepticism for so long as there were no tangible changes on the ground. But those changes are now happening.

Israel troops have withdrawn from a small part of occupied territory, and Israel is handing over important civil powers to a Palestinian authority. Mr Arafat is back on home soil, backed by substantial pledges of international aid. Tourists are already taking advantage of the new border crossing between Israel and Jordan. King Hussein's embattled economy will soon begin to benefit from debt forgiveness of as much as \$2bn over the next three years. Plans are being laid for roads linking Jordan and Israel and schemes for sharing electricity, airports and port facilities. Populations may not yet feel the benefits, but governments can begin to see the dividends of peace.

The desire to realise those dividends should provide the strongest incentive for maintaining the momentum among those leaders already committed to the peace process. Mr Rabin, Mr Arafat and King Hussein find themselves in the same boat, albeit not yet rowing in precisely the same direction. They need the process to succeed for the overwhelming reason that personal, party and dynastic futures may depend on it. They are aware equally that the lack of an agreement between Israel and Syria could threaten further progress and, at worst, undermine what has already been achieved.

## High ground

Mr Rabin's calculations over the next few months will be crucial. He holds the high ground – literally on the Golan Heights and politically at home where the most hawkish elements of opposition are in increasing disarray. Mr Rabin and the Israeli public know the price demanded by Syria, which is an eventual full withdrawal from the Golan. The time

ing and terms of that withdrawal, through which Israel can be reassured of Syria's long-term commitment to peace, are at the heart of the negotiations. The gap is narrowing, must be bridgeable, and if closed would not just inject a new surge of optimism into the peace process but would encourage the belief that other apparently intractable issues, such as the future status of Jerusalem, might one day be resolved.

## Old sureties

The clock is also ticking for President Hafez al-Assad in Damascus. The old sureties, such as the support of Moscow, have gone. King Hussein has set his own agenda, without reference to Syria. Improved relations with Washington will not bear much-needed economic fruit for Syria until there is progress in the negotiations with Israel. Mr Assad may have crushed Islamic forces at home, but he is riding the Hizbullah tiger in southern Lebanon which could yet cause him severe embarrassment. To enhance the prospects of the Alawite minority's maintaining its dominance after his departure, Mr Assad needs to bequeath a more stable future than a continuing, debilitating conflict with Israel.

In Syria, as in Egypt, Jordan, liberated Palestine, the occupied territories, Lebanon, and Israel, the most vigorous opponents of the compromises needed to secure peace are also those who would expect to benefit most politically from the failure of the present process. The closer peace comes, the more desperate and dangerous those forces will become, as recent bombs in London and Buenos Aires have shown. The proper response must be greater vigilance, restraint (especially by Israel), and more emphatic efforts to eradicate the conditions which breed such extremism: occupation, poverty, and the absence of hope for a better future. The next steps are clearly signposted. Israel must speedily complete its withdrawal from most of the West Bank, and Mr Arafat should stop complaining about the conditionality of aid and use what is available as rapidly and effectively as possible. If at the same time the US steps up its efforts to broker a deal between Israel and Syria, the prize will be truly within reach.

Venturing  
capital

A cornucopia of special incentives exists to encourage savings here and promote investments there. Splendid as job-promoting schemes for tax inspectors, accountants and investment advisors, this host of schemes is impossible to justify. That is true even of the almost universally lauded desire to provide special help to small business.

Two justifications can be advanced for offering special incentives to small companies. First, small business is difficult to raise money because investors face obstacles in identifying honestly-run companies with good prospects, in monitoring their behaviour and in realising investments. This may justify efforts to subsidise information. But subsidising particular investments mainly increases tax avoidance. A second argument is that high rates of capital gains tax (up to 40 per cent) in the current tax system discriminate against investment in small enterprises. Given corporation tax, CGT entails the double-taxation of retained earnings. Since growth in the value of small enterprises partly depends on rapid accumulation of retained earnings, this may raise an obstacle to investment in such enterprises. Mr Clarke's unfortunate decision to eliminate indexation of capital losses in the 1993 Budget further reduces the attraction of investment in the small business lottery, where investors hope that a few big winners will offset their many losers.

## Poor measures

The first of these arguments is far from overwhelming, while the second concerns capital gains taxation in general, not small business promotion in particular. It is difficult, therefore, to be enthusiastic about the special measures announced by the chancellor of the exchequer last November. At that time, capital gains tax roll-over relief for profits reinvested in private companies was broadened. In addition, the Enterprise Investment Scheme was introduced as an alternative to the Business Expansion Scheme, which had been hijacked by property investments. Being less generous and better focused, the new scheme should be less wasteful. Legislation is now being drawn

up for a third vehicle, the venture capital investment trusts. The Inland Revenue views these as riskier versions of personal equity plans, with similar tax exemption of dividends and capital gains. Because the trusts will have relatively liquid publicly quoted shares, the Revenue does not appear to favour up-front tax relief, even at the 20 per cent level allowed in the EIS scheme. The Revenue is also proposing to limit venture capital trust investment to any company to £1m. Since the fewer the special incentives the better, hats go off to the Revenue.

## Extensive lobbying

Inevitably, there has been a cacophony of lobbying for changes. The loudest has come from the Association of Investment Trust Companies, which says its members are unlikely to launch new trusts unless the maximum investment limit is raised. Investing in lumps much smaller than £1m would be too demanding on management time and render the trusts unviable, it argues.

This should be ignored. Venture capital institutions, such as £1, adequately meet the demand for larger deals. Setting the limit near £1m would also deny many of the smaller companies the seed capital venture capital trusts are being set up to provide. Investments in smaller companies, those most likely to be curtailed by lack of information, are the ones that most deserve help.

One area where something might be done is to extend CGT roll-over relief to capital gains reinvested in venture capital trusts. But this is mere tinkering with the problem. What is needed is to make roll-over relief generally available. By restricting CGT to investment in such trusts, this would limit its effect on people's ability to trade assets and move the system towards expenditure taxation. Greater fiscal generosity would, of course, generate more investment in small enterprises. But that in itself cannot be a sane objective. What matters is to promote economically productive investment. The way to be more confident that this is occurring is to stop producing one clever wheeze after another and develop coherent reform of the taxation of savings and investment.

The last train to Moscow from the village of Wunsdorf, south of Berlin, departs tomorrow, just as President Boris Yeltsin will be attending the formal ceremonies in the German capital to mark the end of Russia's 49-year military occupation of east Germany.

For the past week the village, hitherto headquarters of Moscow's so-called western group of forces, its army of occupation in Germany, has almost drowned in a tide of celebration and nostalgia. Vodka and champagne have flowed as the departing Russian soldiers bade a tearful farewell to friends.

When the last Russian troops leave, the effects of their long stay in east Germany will certainly not disappear. For a start, they are leaving behind them, in Wunsdorf as on 250,000 hectares of other Soviet garrisons and airfields, shooting ranges and waste dumps, an environmental nightmare: untreated sewage, pools of toxic chemicals, oil and petrol, unexploded shells, and abandoned equipment. The cost of the clean-up is still unknown.

Yet the environmental problems are not the real issue. For the departure of the Russian troops ushers in a new era in German-Russian relations which will remain for the foreseeable future both acutely sensitive, and central to the lasting stability of the European continent. For Chancellor Helmut Kohl and his government, as well as for the vast majority of the German people, the highly visible and symbolic departure of the Russians is a matter for wholehearted enthusiasm. More than any other event since the breaching of the Berlin Wall, this marks the end of the second world war, and the return of a united Germany as a sovereign state.

For all that, it is an altogether more problematic occasion. It emphasises the retreat of Russia from its erstwhile empire, and it gives grist to the mill of the nationalist lobby back in Moscow. He has to emerge looking dignified, even in what many former Red Army officers see as a defeat.

For Mr Yeltsin, it is an altogether more problematic occasion. It emphasises the retreat of Russia from its erstwhile empire, and it gives grist to the mill of the nationalist lobby back in Moscow. He has to emerge looking dignified, even in what many former Red Army officers see as a defeat. It is a dilemma about which Mr Kohl is sensitive, even as he seeks to gain all the votes he can garner from the television pictures of the departure. In recent weeks the German government has embarked on a public relations exercise aimed at reassuring the Russian people that the end of their military occupation can only improve their bilateral and international relations.

There is no doubt that the fear exists in Moscow that Bonn will

As Russian troops leave Germany, Judy Dempsey examines future relations between the two countries

Gone but not  
forgotten

Homeward bound: a Russian combat unit, one of the last to leave Germany, marching in Grimma, Saxony

mark the Russian retreat either by downgrading its relations with its biggest eastern partner, or by adopting a more aggressively nationalist attitude towards its yawning debt and development needs.

In an interview with Mr Kohl in Izvestia last Friday, Mr Sergei Sosnovsky of the Interfax news agency suggested that "there is a view that following the withdrawal of the troops, the Germans will begin to speak a 'different language' to the Russians, because the Russians will have lost their final trump card in relations with Germany."

"Those fears are groundless," Mr Kohl retorted. "Germans and Russians have learned the lessons of history. Both sides have a vital interest in promoting the cause of stability and peace on the continent through far-reaching co-operation."

It is certainly true that the whole direction of Germany's *Ostpolitik* – its policy towards the east – since the demise of the Soviet Union, and its own re-unification, has been aimed at the preservation of peace and stability on its eastern border –

and that has meant above all in the former Soviet Union. This policy has underpinned Germany's diplomatic strategy, and its financial contributions to the Russian economy in a host of ways.

"Germany is streets ahead of the entire international community [in terms of its support for reform]," Mr Kohl told Izvestia. "We did not do this just because of the presence of Russian troops. Rather, we regard this contribution as a good investment in a long-term relationship between Germans and Russians."

According to Deutsche Bank, traditionally the most heavily involved of the German commercial banks in the former Soviet Union, the German banking sector has outstanding loans to Russia of between \$10bn and \$12bn. That amounts to about 25 per cent of all the loans to the former Soviet Union owed to western banks grouped in the London club of commercial creditors.

In addition, Hermes, Germany's export credit insurance agency, has a total exposure of about DM45.65bn, although it has cut back

on its business in Russia in the past three years, except for insurance cover for east German exporters.

Bonn has also paid Moscow DM14.6bn to assist the withdrawal of Russian troops from east Germany, primarily to pay for their rehousing back home. It has also contributed an additional DM4.7bn in technical and humanitarian assistance, and DM4.2bn for financing investment projects.

On the negative side, trade between the two countries has been declining since 1990, and last year totalled DM22.1bn – one quarter of Russia's total foreign trade, but only 2 per cent of Germany's.

As for the *Ostpolitik* officials in Bonn are adamant that the troop withdrawal will not change the basic direction of its foreign policy: to promote stability across eastern Europe and, crucially, to reassure Russia that its own security interests will not be threatened.

"It would be stupid for the Russians to think this will be changed," according to one senior German diplomat. "Of course the symbolism of

the troops leaving east Germany is important. But the main plank of our foreign policy towards Russia has been in place for some time, and we will continue to pursue it."

Again and again, Germany's foreign policy specialists stress the need to put Moscow's own security fears at rest. "Russia sees its security interests as being under threat from eastern Europe, in the sense that Nato will be extended to the borders of Russia, leaving Russia vulnerable," the diplomat said. "That is why we, and our European Union partners, have had painstakingly to explain to the governments of eastern Europe that we could not bring them into the [Nato] Partnership for Peace programme without including Russia."

The counterpart to that policy of reassuring Russia is to dampen the expectations of the central and east Europeans, including the now independent Baltic republics.

"We are trying to explain to them why they must not block out Russia," the diplomat said. "It is too dangerous. They must establish new relations with Russia because an eastern Europe which is perceived to be hostile by Moscow could play into the hands of the nationalists and lead to instability."

Russia lost eastern Europe. It now needs a new relationship with eastern Europe in order to come to terms with the west expanding towards its borders. "When Finland joins the EU next January, the EU will itself have a Russian frontier."

Bonn believes that Moscow understands the importance of the bilateral relationship, and will itself try to preserve it. It wants the German government to continue to act as a sober, moderating voice in international organisations, allowing an eastern Europe to emerge from the shadows.

"Those interests are becoming clearer," said another German diplomat. "I believe Russia is pursuing a sober, if not cynical, strategy. It wants to be the first among the former Soviet republics to get on its feet." Bonn is prepared to back that self-interested strategy, not least because German officials are haunted by a nightmare. That is the danger of big differences between the rate of economic growth in different parts of eastern Europe, leading to a backlash against the slow pace of reforms in some of them. "They could be drawn back again into the former Soviet Union. In such a scenario we should not exclude the prospect of a new military-type Warsaw Pact. Two emerging," the diplomat said.

That is the concern which will temper too much triumphalism tomorrow on the streets of Berlin when President Yeltsin comes to bid farewell.

An appointment is a contract which is breached by unpunctuality, argues David Lascelles

## Latecomers, time's up

If I was given the opportunity to expunge a single human vice, it would be unpunctuality. Vice is not too strong a word for it. We are talking here about something that is selfish, damaging and – since this is a business newspaper – expensive. And there are few vices that can claim to be all three.

That may sound a bit strong, coming from a member of a profession which is notorious for its inability to keep appointments. But even journalists know the value of punctuality. There would not be much in today's newspaper if they did not.

The world divides into people who are punctual and those who are not, and the gulf between them is gapingly wide. Speaking as a member of the first group, I can explain why I resent unpunctuality, but I can only make a biased guess at what goes on in the mind of a habitually unpunctual person.

It is a dilemma about which Mr Kohl is sensitive, even as he seeks to gain all the votes he can garner from the television pictures of the departure. In recent weeks the German government has embarked on a public relations exercise aimed at reassuring the Russian people that the end of their military occupation can only improve their bilateral and international relations.

There is no doubt that the fear exists in Moscow that Bonn will

way. That would explain the rush of anger they feel at other people's lateness. But let us try to rationalise this feeling for a moment.

Punctuality is partly about manners. It is rude to turn up late because it inconveniences the person you are meeting. An appointment is a form of contract which is breached by unpunctuality. And it is a particularly personal form of contract because it involves the physical presence of both parties. The argument that punctuality is essentially a social virtue is reinforced rather than weakened by the fact that some nations consist entirely of unpunctual people. In countries where it is customary to turn up half an hour late, the code still exists; it merely has 30 minutes built into it.

But punctuality is also about order and economy, both of which make the world go round. Unpunctuality is about anarchy and waste, which are destructive. Unpunctuality is also corrosive. It destroys punctual habits in other people – as in the case of regular meetings

Things which never  
would be missed

which always start late because a few people persistently fail to show up on time. Eventually, everyone rolls up late.

Part of the resentment that punctual people feel stems, I think, from the sense of injustice that unpunctuality creates. If punctual people believe that civil behaviour demands that people arrive on time, the same code obliges them to deal

civilly with late arrivals, no matter how strongly they resent them.

Thus:  
Scene: Two punctual people, A and B, sitting at a meeting table, waiting for third person, C.  
A: (looking at watch): "He's a quarter of an hour late."  
B: "Shall we start without him?"  
A: "Give him five more minutes."  
Enter C in a flurry of lateness.  
C: "Gosh I'm sorry I'm so late."  
A and B (in unison): "Not at all. Difficult morning?"  
C: "Terrible. Been waiting long?"  
A: "No, only a few minutes."

This scene illustrates two things. One is that unpunctual behaviour triumphs. The other is that the unpunctual person is never made fully aware of the inconvenience he has caused. He therefore never corrects his fault. There is nothing to be lost from being unpunctual. Unpunctual people seldom think of themselves as such. Insofar as I can understand them, they seem to think that punctuality is a sign of pettiness, of warped values. They have trouble linking it with notions

of selfishness or anti-social behaviour.

People will doubtless resent the moral-sounding tone of this article. Unfortunately, the punctual habit brings no sense of righteousness, no moral glow. It is in many ways a curse: it condemns you to a lifetime of anxiety, to a gut-tightening dread of delay – all overlaid by the sense of frustration I have already alluded to.

Maybe punctual people are at fault for not dealing more severely with late people. Their tolerance prevents a kind of Darwinian process from breeding out the unpunctual habit. What society needs is a sanction which penalises unpunctuality. But it is not easy. Unpunctual people have little sense of shame, and they can usually judge how strongly their presence is required. Therefore there is no point in being forthright with them, or in trying to shut them out.

The answer must lie in inconvenient latenesses in some way to irritate them, make them feel excluded: such as removing all empty chairs from a meeting room at the appointed time. I'm sure there's scope for some constructive suggestions here.

## OBSERVER



If we can justify our pay rise I reckon we'll have earned it

new "super" shadow minister, sets about trying to help the SPD get elected.

For Goedevert and Schröder were last seen hurrying down the Autobahn in opposite directions. The man most likely to oust Schröder if he loses it, Schröder is also the spokesman for Lower Saxony's controlling minority stake in VW. From his perch on the car-maker's supervisory board, he provided indispensable support for Plösch's campaign to send Goedevert into the wilderness.

Daniel for  
lion's den

Daniel Goedevert, last heard of as a Volkswagen back door a year ago after being booted off the group board, has popped up at the side of would-be German chancellor Rudolf Schöppner.

The 52-year-old Frenchman yesterday became the Social Democrat leader's personal adviser on Franco-German affairs, part of a series of changes designed to inject some verve into the diffident Schöppner's election campaign.

A thoughtful, literary type who fell foul of VW boss Ferdinand Piëch, Goedevert has in the interim been convalescing quietly on a DM4m "consultancy fee" from the company.

He has been padding out what he describes as "this vacuum, this emptiness" as vice-president of the International Green Cross, an environmentalist group based in Geneva.

Reputed for his impeccable intellectual honesty – he earnestly promoted sound ecological and ethical business practices before most of his former motor industry colleagues had even heard of them – Goedevert is a handsome, well-spoken man with a keen eye and a left as Gerhard Schröder, the power-hungry prime minister of Lower Saxony who becomes the

## Soft landing

So Stephen Wolf is really grounded for good. The man who last month quit as boss of United

Flying Tiger Line).

It was his success at brow beating the unions that made his departure from United an inevitability, once the workers took control.

But, precisely as a turnaround artist able to wring concessions from employees, Wolf, 53, will no doubt earn his keep as a senior adviser with Lazard. His advice on mergers, acquisitions and restructurings will be founded on something more than business school case studies.

At his new stable, he has a close personal friend in Ira Harris, the partner heading the Chicago office. And the firm obviously passed muster on a professional basis when it advised Wolf and United in the course of the buy-out negotiations with the unions.

## President who?

It is just a year from the presidential elections in Poland, and the present incumbent Lech Walesa is growing restless. The opinion polls make gloomy reading, so Walesa has gone in search of scapegoats.

The first casualty seems to be his faithful press spokesman Andrzej Dryzdzinski, who has been dispatched on "extended holiday". Francis Cybula, the president's chaplain and confessor since his days as a youthful trade union leader, is also not expected to survive.

In the meantime, Walesa seems to

reckon he can do better himself – at least in the former capacity. Last week he dialed The Wprost with his personal denial of a report carried in the weekly newspaper alleging he kept a number of foreign bank accounts.

Understandably, the telephonist did not immediately twig as to the caller's identity, and connected him with the sadly incomplete introduction: "There's a president on the phone."

A flustered newsmen attempted to explain away the confusion. "All sorts phone up giving themselves false titles to attract attention."

## Flooded

Arcaze world, the financial futures business. The latest advert for the French exchange Matif depicts a helmet, accompanied by a truly mystifying slogan to the effect that "protecting your assets is not as difficult as you may think... Before grabbing your helmet, give us a call".

Head suitably naked, Observer rang in search of a translation. Just what did this particular piece of headgear have to do with a French franc-denominated option or any other of the market's weird and wonderful wares?

"It is a medieval 'at' a voice in the communications department explained patiently. Puzzled silence from London. "You know what an 'at' is? I don't know what your problem is." Ah well.











## INTERNATIONAL COMPANIES AND FINANCE

## MAN upbeat in spite of 30% drop in earnings

By Christopher Parkes  
in Frankfurt

MAN, the engineering and commercial vehicles group, claimed yesterday to have ridden out the recession, in spite of a 30 per cent drop, to DM160m (\$98.7m), in net earnings in the year to the end of June.

The recovery which took hold in the second half was continuing, and profits were expected to rise in the current year, it said.

In keeping with the group policy of paying dividends in line with operating results, the

1993-94 payout is to be cut to DM7 from DM8.50, the company said.

A powerful recovery had set in after a weak first half in which restructuring costs had compounded the effects of recession. Group sales ended the year down 4 per cent at DM18bn, after being almost 8 per cent lower at the halfway stage.

New orders rose 11 per cent in the review period. MAN attributed this to a 30 per cent surge in foreign demand, which more than offset a 3 per cent fall in domestic bookings. The group reported a 30 per

cent increase in demand for printing machinery during the year, while orders for machinery and plant rose 17 per cent. Even commercial vehicles showed a 10 per cent improvement.

MAN started the new financial year with 5 per cent more orders on hand than a year earlier, while the workforce was reduced 6 per cent to 57,000 in the same period.

Job cuts affected all sectors except diesel engines. Commercial vehicles shed 10 per cent of its workforce and the MAN Roland printing plant plant subsidiary 9 per cent.

## Bayer to pursue control of US brand

By Christopher Parkes

Germany's Bayer group is to press on with its bid to regain control of the Bayer brand in the US, in spite of yesterday's takeover of Sterling Winthrop, which owns American rights to the name and the cross-shaped trademark.

The company said yesterday it would seek "clarification" from the new owner, Smith-Kline Beecham of the UK, which has agreed to pay Kodak \$2.93bn cash for its Sterling self-medication subsidiary.

Bayer, which had also bid, said it was still interested in "parts" of Sterling's over-the-counter business in the US, and wanted to discuss the issue of trademark rights.

One of the main attractions is the branded aspirin business (the analgesic was invented by Bayer), which generates sales of \$150m a year in the US.

Mr Manfred Schneider, the German group's chairman, has said in the past he would swim the Atlantic if it could win him back the rights requested and auctioned by the US government along with the Bayer business during the first world war.

However, signs of a tough auction emerged earlier this month, when Mr Schneider said he would pay only a limited premium for the Sterling operations. "We do not absolutely need the trademark," he said then.

Win or lose, the company says expansion of its non-prescription medicines remained a priority, especially in the US. It is currently represented there by Miles, based in Pittsburgh, which last year had sales of \$6.5bn. According to Fortune magazine, Miles is the 84th biggest industrial company in the US.

Bayer extended its reach in the US market earlier this year when it paid \$310m for a minority stake in Schering-Plough, a privately-owned generic drug specialist. Generics - or out-of-patent products - represent one of the fastest growing segments in pharmaceutical markets.

## Banks spoil media man's appetite

Debts threaten Robert Hersant's paper empire, writes Alice Rawsthorn

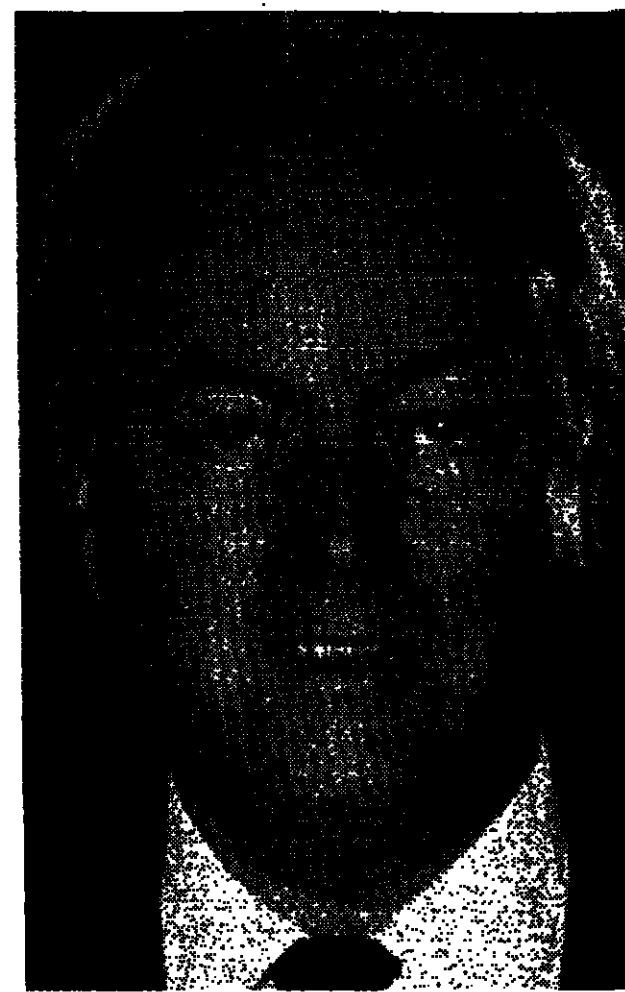
A succession of French governments has tried and failed to curb the power of Mr Robert Hersant, the secretive media magnate who is the dominant force in the French press. However, Mr Hersant is now under unprecedented pressure to dismantle his empire - not from the government, but from his banks.

Mr Hersant, 74, is more accustomed to buying newspapers than selling them. His appetite for acquisitions has earned him the nickname *le papivore*, the "paper eater", in France. It has also created one of Europe's largest newspaper groups including *Le Figaro*, the biggest-selling French national daily; *France-Soir*, the sensationalist evening paper; a string of regional titles; and significant press interests as far afield as Belgium, Poland, Hungary, Tahiti and Guadeloupe.

However *le papivore* is heavily in debt. His main lender is Crédit Lyonnais, the ailing state-controlled bank which has made no secret of the fact that it is pressing Mr Hersant to redeem some of his loans, just as it has been pursuing Mr Bernard Tapie, the beleaguered left-wing entrepreneur, to repay his debts.

Mr Hersant's refusal to publish accounts makes it impossible to gauge his financial position. Analysts estimate he has total debts of around FF40m (\$719.4m). They calculate he is obliged to repay FF10m of it by the end of this year, in one tranche of FF600m in late October and another of FF400m at the end of December. Given that most of his titles are believed to be in the red, and that Mr Hersant is known to be bitterly opposed to the possibility of bringing in external investors, his only solution seems to be disposals.

The Hersant group has no shortage of candidates for sale. Mr Hersant, the self-made son of a merchant navy officer, has been expanding his empire since he founded his first title, *L'Auto-Journal*, after the second world war. *L'Auto-Journal* prospered in the buoyant economic climate of post-war France and, by the late 1950s, Mr Hersant had hit the acquisition trail. A series of deals culminated in the mid-1970s with



Robert Hersant: reveals in role of hands-on newspaper proprietor

the takeover of *Le Figaro*.

He owns roughly 35 per cent (in circulation terms) of the French newspaper market and 40 per cent of the Polish press. Mr Hersant even boasted he had a monopoly over the *Tahiti* national daily press until, earlier this month, a rival was launched to compete against his two titles.

Analysts are wary of pinning precise valuations on the Hersant group. "We have absolutely no idea of its true value," said Mr Jean-Laurent Nabet, media analyst at *Société Générale* in Paris. "After all, we don't even know the exact level of sales or debt."

However, the consensus in financial circles is that *Le Figaro* alone is worth around FF2bn. The French regional titles (which include *Le Progrès*, the influential Lyon

daily that has a higher circulation than *Le Figaro*) are thought likely to fetch another FF2bn. Mr Hersant could also expect to raise between FF400m and FF500m from selling his papers in Poland.

This means he could comfortably repay all his debts simply by selling part of his empire. Mr Hersant recently raised FF204m by selling a bundle of magazines - including *L'Auto Journal*, his first title - to Emap, the UK media group.

There is no shortage of suitors for his remaining interests. Hollinger, the Canadian group headed by Mr Conrad Black, is said to have expressed interest in a number of titles. The UK's Associated Newspapers is mooted as a prospective buyer for the Polish titles. *Le Figaro*

is rumoured to have attracted a string of potential purchasers including Hollinger, Mr Jimmy Goldsmith, the flamboyant financier, and a French consortium composed of the LVMH luxury goods group, the Alcatel-Alsthom electronics concern and Havas, the powerful media company.

Moreover, the climate in the French newspaper market is improving, enhancing the prospects for disposals.

France's newspapers have had a tough time over the past two years, as the recession triggered a sharp decline in circulation and advertising. But the economy is recovering and the industry has stabilised. "The worst is definitely over," said *Société Générale's* Mr Nabet.

However, Mr Hersant shows no sign of being prepared to sell. He revels in his role as a hands-on proprietor in the traditional mould. He does nothing to disguise the imposition of his political views on his papers: *Le Figaro* has been steered steadily to the right under his ownership.

He has also used his titles as a platform for his political career - in both the French and European parliaments - and has long relished playing a power-broker role in French politics.

Mr Hersant's response to the current crisis has been to tighten his grip on his empire, rather than relax it. One of the first victims of the credit crunch was Mr Philippe Villin, the high-flying 40-year-old who had been seen as Mr Hersant's heir-apparent until he was fired two months ago as chairman of *France-Soir*. The septuagenarian Mr Hersant announced he was personally taking charge.

However, pressure is mounting. The deadline for his FF600m repayment is only two months away. The Emap deal shows Mr Hersant will make disposals if he has to.

Any future sales, however, are likely to be along similar lines, involving relatively low-profile titles. Even the most optimistic of *Le Figaro's* suitors have accepted that Mr Hersant will try to cling on to that paper at least until after he has played the power broker again in next spring's presidential elections.

## Turnround at Kugelfischer

By Christopher Parkes

FAG Kugelfischer, the German ball-bearing group which underwent a rigorous shake-up last year, rolled back to profit in the six months to the end of June.

Operating income of DM49m (\$30.2m) contrasted with a loss at this level of DM109m last time. Net earnings were DM17m compared with a deficit of DM104m.

The group said yesterday it expected a positive result for the full year, as long as markets did not deteriorate, and for sales to increase on a like-for-like basis.

The return to the black was due largely to reduced interest payments and payroll costs.

Bank debt at the end of June had been reduced to DM1bn compared with DM1.84bn, while reducing the workforce by 40 per cent had cut the wages bill by 94 per cent.

Meanwhile, operations also benefited from the international economic recovery. FAG booked new orders in the review period worth DM1.44bn, an increase of 23 per cent. On July 1 it had orders on hand for almost 4 months' work.

Group sales in the first half were up 1 per cent on a comparable basis, at DM1.32bn.

The company has benefited from the international recovery, especially in the automotive and machinery sectors. FAG had almost been given up for lost two years ago,

before Mr Kajo Neukirchen, a renowned turnround specialist, was appointed chairman of the supervisory board. His job was to oversee a shake-up involving closures, sales and massive job losses.

From 30,000 at the start of 1993, when he took office, the group workforce had been cut to 15,400 at the end of June. In the interim, Mr Neukirchen has taken charge of the salvage operation at *Metalgesellschaft*, the German engineering group that almost collapsed late last year.

As part of his plan, FAG has been split into four joint stock companies with responsibilities for automotive components, aircraft and precision bearings, trade and services.

## Coca-Cola, Nestlé remodel link-up

By Ian Rodger in Zurich

Coca-Cola and Nestlé are streamlining their global co-operation in the ready-to-drink tea and coffee sector.

The two groups will dissolve a joint venture created in 1991 to make and sell the products throughout the world. Instead, the two will work together to accelerate their product drive in more countries.

Ready-to-drink teas and coffees, distributed hot and cold in vending machines, have long been popular in Japan, the only country where Nestlé

and Coca-Cola compete with each other in these products.

The two groups have decided to combine their strengths - Nestlé's coffee and tea brands and Coke's distribution and vending machines - to introduce the range to other markets.

Nestlé said yesterday the joint venture had so far introduced ready-to-drink teas and coffees to 25 countries on four continents. Neither company has revealed sales figures, but it is believed the venture has annual revenues of about \$150m.

Under the new arrangement, Coke will concentrate on developing the market for ready-to-drink teas, and will take out a 100-year licence from Nestlé to use the Nestlé trademark throughout the world, except in Japan.

Nestlé will concentrate on developing Nescafé brand ready-to-drink coffees.

Wherever possible, the products would be distributed through Coca-Cola bottlers.

Nestlé said the arrangement would accelerate decision-making by eliminating an entire level of management.

## ABN-AMRO Holding N.V.

established in Amsterdam

The Managing Board of ABN AMRO Holding N.V. wishes to announce that it has been decided, with the approval of the Supervisory Board, to distribute an interim dividend for the 1994 financial year of NLG 1.50 per ordinary share of NLG 5 nominal value.

The interim dividend of NLG 1.50 may be taken at the shareholder's option either entirely in cash or NLG 0.30 in cash and a distribution of ordinary shares charged to the share premium reserve in the ratio of one new ordinary share for every 50 ordinary shares held.

The new ordinary shares will rank for the final dividend for the 1994 financial year and the full dividend for ensuing financial years.

Payment in the form of ordinary shares chargeable to the share premium reserve is exempt from Dutch withholding tax and income tax.

As of September 7, 1994, the interim dividend on ordinary shares will be payable at the following addresses:

in The Netherlands: any office of  
ABN AMRO Bank N.V.,

in the United Kingdom: National Westminster Bank PLC., (Crawley).

In connection with the above, NLG 0.30 and NLG 1.20, less 25% withholding tax, will become payable in exchange for dividend coupon nos. 18 and 19, respectively.

Shareholders opting for payment in the form of ordinary shares chargeable to the share premium reserve will receive one new ordinary share of NLG 5 nominal value in exchange for every 50 dividend coupons no. 19. The closing date is September 16, 1994. After this date holders of dividend coupons no. 19 can obtain payment in cash only. The new ordinary shares in respect of unexercised stock dividends will be sold.

Holders of CF-certificates will receive the cash dividend, less 25% withholding tax, and their rights to ordinary shares through the institutions where the dividend sheets belonging to their certificates were deposited at the close of business on August 29, 1994.

In respect of the exchange of dividend coupons no. 19, which must be provided with a company stamp on surrender, no commissions will be charged so that said exchange can be made free of charge to the holders.

Persons presenting dividend coupons no. 19 for exchange and requesting delivery of securities at offices other than those stated above may be charged commission.

Holders of registered shares, whose names have been entered in the ordinary share register will be notified individually by the company of the amount of dividend payable to them.

Amsterdam, August 29, 1994

ABN AMRO Holding N.V.

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## INTERNATIONAL COMPANIES AND FINANCE

## Bond market turmoil puts Skandia deep in the red

By Christopher Brown-Humes in Stockholm

The turmoil in international bond markets had a dramatic impact on the first-half results of Skandia, the Swedish insurer.

The group slumped to a SKr2.40bn (\$322.9m) loss from a SKr1.66bn profit at the management operating level under the impact of unrealised losses on its bond portfolio.

It still recorded a deficit of SKr550m - against a SKr1.16bn profit - even if unrealised changes to bond values are excluded. This is because of realised capital losses on bond sales, changes in share values

and changes in exchange rates for surplus values of assets.

The group's operating performance was also affected. Before adjusting the value of its bonds to the lower of cost or market value, profit fell to SKr528m from SKr577m. After adjusting, it swung to an operating loss of SKr435m from a SKr637m profit.

Mr Björn Wolrath, chief executive, said the group was consoled by the improvement in its core insurance operations where profits climbed 31 per cent to SKr578m.

Reinsurance activities improved their results and there was a strong improve-

ment at NIG Skandia, a UK unit.

Premium income climbed 35 per cent to SKr27.3bn, driven by a strong expansion of unit-linked life assurance business.

Skandia triggered turmoil in Sweden's financial markets in July when it boycotted new Swedish bond issues in protest at a lack of political will to curb state debt. The boycott remains in force. The group said it had no Swedish bonds in its portfolio at mid-year.

Net asset value per share was SKr160 at the end of June, against SKr170 on January 1. The group's solvency margin improved to 83 per cent from 60 per cent.

## MCI drops plan to buy 17% stake in Nextel

By Louise Kehoe in San Francisco

Shares of Nextel Communications, the US wireless communications company, fell sharply yesterday when MCI cancelled an agreement to acquire a 17 per cent stake in the company.

Nextel has ambitious plans for a US-wide service combining mobile voice, data, paging and dispatch radio services.

It was trading at \$244 in mid-session yesterday, down from Friday's closing price of \$304.

In February, MCI agreed to pay \$1.8bn for 17 per cent of Nextel shares. The telephone company was to become Nextel's marketing partner in its bid to create a nationwide wireless communications network.

Comcast, another Nextel shareholder, was also a party to the agreement.

Yesterday, the companies said they were continuing to explore the possibility of a strategic alliance, but on different terms.

Since February, when MCI signed a letter of intent with Nextel and Comcast, Nextel's share price has fallen from \$42.

Analysts said MCI may have been renegotiating the price it agreed to pay for Nextel shares, which was \$36 a share for an initial tranche and \$38 for additional shares to be purchased over a three-year period.

Also, since the initial agreement with MCI was signed, Nextel has announced planned acquisitions of OneComm and Dial Page and the purchase of Motorola's specialised mobile radio licenses, mostly for stock.

The issuance of new stock would have diluted MCI's planned stake in Nextel to about 12 per cent.

News of MCI's decision to pull out of the deal with Nextel hit the share prices of OneComm and Dial Page as analysts speculated that Nextel may reassess its plans to acquire the two companies.

However, Nextel said its planned deals would go ahead.

## Little reward for a Digital Risc

US group's link with Olivetti has come unravelled, writes Alan Cane

Digital Equipment's decision to sell its 7.9 per cent stake in Olivetti of Italy at a heavy loss should not have come as much of a surprise.

Apart from the US company's pressing need to restructure its investment portfolio, the shareholding was the last tangible evidence of a strategy which has failed to work for either company.

Digital, once the world's second largest computer manufacturer but now losing money heavily, took an initial 4 per cent stake in Olivetti in 1992 as part of a complex deal designed to give Digital a broader market for its products and provide the Italian company with a financial and technical lifeline. It subsequently increased its holding to 7.9 per cent.

Digital first bought 20m Olivetti shares at a premium to the market price in June 1992, and then increased its stake gradually with further market purchases, for a total of \$287.8m.

Digital has not specified the price at which the shares were sold during late July and August, although it has had to write down a large part of the investment. Wall Street analysts estimate that the sale of the stake would have raised between \$140m and \$150m.

Two years on, it is clear that neither objective has come close to being achieved. There were warning signs that the match was far from ideal.

Digital paid more than twice the market price for a share of a troubled company whose hopes of returning to profitability were not bright. Olivetti lost \$297.5m in 1993, and is still struggling.

Why? Both companies talk

about the broad benefits of a technological and commercial alliance, but the deal was mostly about a single technology - Digital's Alpha microprocessor, claimed to be the world's fastest.

The computer industry is changing dramatically. It is moving from mainframe-based systems to new designs based on networks of personal computers and mid-range machines called "servers".

Digital paid more than twice the market price for a share of a company whose hopes of returning to profitability were not bright

which offer better price performance. The heart of these new client-server networks is a kind of microprocessor, known as reduced instruction set computing (Risc), which is simple and very fast.

All the large manufacturers are trying to establish their Risc microprocessor as the standard. For this they need volume sales and have therefore sought alliances with other manufacturers.

Sun Microsystems, a leader in Risc technology, has openly licensed its Sparc designs and has an alliance in Europe with ICL, the UK-based company owned by Fujitsu of Japan.

IBM, Motorola and Apple Computer are jointly developing the PowerPC, and IBM has underlined a sales agreement with Groupe Bull of France by taking an equity stake in the company.

Digital's stake in Olivetti had the same objective. Sales of Alpha technology have not

so far met expectations, although Digital says it is beginning to see real growth with some \$1bn worth of Alpha systems sold.

Last quarter, it said, sales of Alpha technology outsold its older minicomputer technology and now contribute 89 per cent of its computer systems revenues. Olivetti has not made much of a contribution, however. Although it introduced some Alpha-based workstat-

ions and servers in June, analysts reckon that it has sold only a few tens of millions of dollars worth of these systems to date.

In Olivetti's defence, analysts say that Digital has failed to establish Alpha as an industry standard, and that it has not become a reference point in the Risc market.

More significant, they point out that Olivetti's chief interest in Alpha was to become the heart of its personal computers. Olivetti is the largest maker of PCs in Europe. Digital, however, has decided to use Alpha to power its network servers rather than PCs.

Both companies have dragged their feet in the market place. Digital has been slow in delivering essential software while Olivetti discovered that moving its existing customers to Alpha technology would take longer than it had anticipated.

What is left of the alliance? As things stand, Digital will

continue to buy from Olivetti laser printers, where the Italian company has developed first-rate technology. It will also continue to be Digital's principal supplier of laptop computers.

Digital no longer relies on Olivetti for PCs for the European market, although it will continue to buy the Italian machines in small numbers. The two companies have pledged to work together on PC technology.

Digital also points out that Olivetti has launched products based on Alpha technology, although it agrees that sales, at an early stage in the product cycle, are insignificant.

Digital has substantial cash, inherited from its successful years in the late 1980s. Does it need to raise more money?

Probably not in absolute terms, although it still has substantial restructuring charges to meet. But its senior executives have to be seen as putting their house in order.

Talks with Oracle Systems, a database company, about the sale of Digital's database software, are thought to be close to a conclusion. The sale might raise a further \$100m or so.

What effect will the loss of Digital as an equity partner have on Olivetti?

It says it is not looking for a single large partner but is prepared to consider several smaller alliances in areas, such as telecommunications and multimedia which it has identified as its best opportunities.

The Digital-Olivetti deal is the first of the Risc alliances to come unravelled. It remains to be seen whether the others will prove more stable.

## Underlying improvement at NCC

By Christopher Brown-Humes

A strong upturn in underlying performance was yesterday reported by NCC, Sweden's second-largest construction group, even though conditions in its home market continued to worsen.

The group relied on reorganisation, lower financial costs and a better investment performance for the improvement.

Headline profit declined to SKr130m (\$16.9m) in the first six months from SKr308m, but both figures were distorted by one-off gains from share sales. Excluding these, the group swung from a SKr170m loss to a SKr106m profit.

Reflecting the continuing depression in the Swedish market, revenues slipped to

SKr7.6bn from SKr8.6bn while the order intake was unchanged at SKr6.7bn.

NCC said industry estimates showed the market would shrink by a further 13 per cent this year before making a modest recovery in 1995. New housing starts fell 40 per cent in the first half to just 3,300 units.

The group expects to remain in the black for the full year after last year's SKr175m profit. Lower profits from its three building units are expected to be offset by a stronger performance from NCC Invest and reduced losses in NCC Real Estate.

● Euroc, the cement and building materials group, saw a sharp increase in first-half profits to SKr258m from SKr95m, after shrugging off a

continued downturn in its two most important markets, Finland and Sweden.

The company said synergies from its acquisition of two Finnish companies at the end of last year increased productivity, and better market conditions in the US and the UK contributed to the improvement.

It predicted a full-year profit of at least SKr650m, well ahead of last year's SKr240m. The estimate comprises a SKr470m underlying profit and a further SKr180m in one-off gains.

During the second half, a SKr480m dividend from the winding up of the Protory investment group will be partly counterbalanced by SKr280m in writedowns, it said.

## AssiDomän lifts year's forecast

By Hugh Carnegie in Stockholm

AssiDomän, the Swedish forestry group partly privatised earlier this year, yesterday raised its forecast for full-year profits after reporting a 77 per cent rise in pre-tax profits in the first half.

The group, Sweden's fourth largest forestry concern, said profits after financial items rose to SKr609m (\$105.3m) from a pro-forma SKr457m in the same period last year, due to

an 11 per cent increase in sales to SKr8.16bn from SKr7.38bn and a fall in financial charges to SKr90m from SKr142m.

Mr Lennart Ahlgren, chief executive, said if production conditions remained stable, the full-year profit after financial items was expected to reach between SKr1.6bn and SKr1.8bn. This compares with a forecast made in the February privatisation prospectus of between SKr1.2bn and SKr1.5bn. The company was formed before the sell-off by a

merger of Assi and Domän and later took over a third majority state-owned concern, NCB.

NCB results were consolidated in the latest figures. A total of 49 per cent of the whole new group was sold off, raising SKr7.6bn in Sweden's biggest privatisation.

AssiDomän benefited from higher sale prices for sawn timber and pulp. Its forest and timber products division lifted sales to SKr2.5bn from SKr2.1bn, and operating profits to SKr694m from SKr435m.

## Naf Naf agrees to take over Chevignon

By Alice Rawsthorn in Paris

Naf Naf, the French textiles group, last night announced it had agreed terms to acquire Chevignon, the leisurewear company, for FFr125m (\$23.32m).

Negotiations between Naf Naf and Chevignon, two of the best-known brand names in the French clothing industry,

have been going on for some months.

Mr Patrick Pariente, one of the two brothers that head Naf Naf, last week confirmed reports of an imminent deal but waited until yesterday's shareholders' meeting to announce the terms of the transaction.

Naf Naf, which emerged as a force in the French tex-

tiles industry during the 1970s and 1980s, went public last year.

The acquisition of Chevignon, which is a force in the jeans market, represents an important opportunity to expand its interests.

Mr Pariente affirmed that Naf Naf was on course for growth this year with estimated net profits of

between FFr135m and FFr155m.

● Far Eastern Textile, one of Taiwan's leading manufacturers of textiles and other related products, posted pre-tax profits of NT\$918m (US\$35m) in the year to June 30, against NT\$621m a year earlier, writes Laura Tyson in Taipei.

Revenues climbed to NT\$11.4bn from NT\$9.8bn.

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## INVESTOR AB

## SIX MONTH INTERIM REPORT 1994

## INVESTOR GROUP

Investor's net worth amounted to SEK 38,286 m. (Dec. 31, 1993: 37,493 m.), or 192 (206) per share.<sup>1)</sup> On August 24, its net worth was SEK 39,913 m., or SEK 200 per share.

The value of Investor's portfolio of strategic holdings was SEK 27,516 m. (Dec. 31, 1993: SEK 27,964 m.). On August 24, its value was SEK 28,997 m.

The Investor Group's income before tax amounted to SEK 1,191 m., against SEK 367 m. in the first six months of 1993.

The Group's net debt amounted to SEK 6,880 m. (Dec. 31, 1993: SEK 4,850 m.). The increase is due, among other things, to higher tied-up working capital within Saab-Scania, as a result of favorable growth in its operations, and to a payment against the sale and leaseback agreement on Grand Hôtel's property.

## SAAB-SCANIA

Saab-Scania's order bookings rose by 40% during the first half-year. Its sales during the period amounted to SEK 14,466 (11,914) m., an increase of 21%.

Saab-Scania's operating income after depreciation amounted to SEK 1,429 (39) m. Income after financial items was SEK 1,200 (-264) m.

Saab-Scania's income during the second half of 1994 is expected to be better than during the first half.

<sup>1)</sup> Investor's net worth with Saab-Scania at an EBIT value was SEK 55,785 m., or SEK 280 per share.



## INTERNATIONAL COMPANIES AND CAPITAL MARKETS

## Euro Disney asks watchdog to probe share price slide

By Alice Rawsthorn in Paris

Euro Disney, the troubled leisure group, is to ask the Paris stock market authorities to investigate the recent fall in its shares, which yesterday were twice suspended after plunging to a record low.

The group, which recently concluded negotiations with its banks for a FF1.5bn (\$240m) financial rescue, saw its shares end the day 11.6 per cent down at FF77.75 during the morning.

The shares were also suspended on Friday after a sharp fall.

Euro Disney said that it had requested the Commission des

Opérations de Bourse, the Paris watchdog, to analyse why its shares had fallen so sharply, given that it had not released any new information over the past few days.

Analysts attributed the decline in Euro Disney's shares to nervousness about the company's trading prospects and to concern about the implications of recent senior management changes at both Euro Disney and Walt Disney, its US parent company.

Mr Mike Montgomery, Euro Disney's well-regarded finance director, announced his resignation two weeks ago.

His departure aggravated fears of a poor performance

from Euro Disney, which is said to have had weak attendance levels this summer in spite of price-cutting and promotional initiatives.

The news of Mr Montgomery's departure was followed by the surprise resignation of Mr Jeffrey Katzenberg, the high-profile head of Walt Disney's film division.

The Disney parent company is still unsettled after the sudden death of Mr Frank Wells, its president, and the illness of Mr Michael Eisner, its chairman who recently underwent heart surgery.

Walt Disney played a prominent role in Euro Disney's emergency restructuring.

## Sharp climb at Arnott's to A\$81m for year

By Nikki Tait in Sydney

Arnott's, the Australian food group now majority-owned by Campbell Soup of the US, yesterday reported a sharp improvement in profits after tax and abnormals in the year to July 1.

The company made A\$81.1m (US\$40.3m), compared with A\$47.2m previously.

However, the advance was partly due to the absence of abnormal charges, which took A\$32.9m off the result last time.

Operating profit before abnormals and tax rose by a more modest 5.5 per cent to A\$116.5m, while sales dipped from A\$636.2m to A\$622.5m - largely due to the sale of some non-core businesses, including White Rose Flour Mills and Illawarra Jam.

Arnott's said revenues from its core Australian biscuit division were marginally ahead of the previous year, but trading profits for the division were affected by a Prices Surveillance Authority review.

During the period of the inquiry, companies are precluded from seeking price rises.

Sales in New Zealand were slightly down, and trading profits lower. However, in Papua New Guinea, sales and trading profits - after adjusting for asset sales - rose "significantly".

Arnott's said its push into Asia was "proceeding well". It plans to start distributing products in Korea in the final quarter of 1994, and is targeting Thailand, Indonesia, the Philippines, Vietnam and India "in the longer term".

It also intends to step up the advertising budget in its home market in the current year, to take advantage of the rise in Australians' discretionary spending, as the economic recovery gains pace.

There is a final dividend of 17 cents a share, taking the full year payout to 32 cents, compared to 29 cents previously.

## Treasuries steady in thin trading

By Frank McGurty in New York and Graham Bowley in London

US Treasuries improved yesterday morning after the release of favourable economic data, but the modest gains were quickly eroded in quiet trading.

By midday, the benchmark 30-year government bond was 1/8 better at 100 1/8, with the yield slipping to 7.475 per cent. At the short end, the two-year

## GOVERNMENT BONDS

note was unchanged at 100 1/8, to yield 6.185 per cent.

Bonds opened on a solid footing as traders welcomed news from the Commerce Department that July personal income had appreciated 0.5 per cent from the previous month, while personal spending edged 0.2 per cent ahead.

Both figures were in line with expectations.

By offering further evidence of moderate economic growth and low inflationary pressures, the data helped buttress the growing conviction in the market that the Federal Reserve

would delay its next move to tighter money until November.

The dollar, which was firmer against other leading currencies, provided additional support for bonds.

As a result, the long end of the maturity range took a modest step forward in the early going, building on Friday's moderate gains. However, the improvement proved to be short-lived as the 30-year issue soon receded to just above its opening value.

The retreat was partly explained by the thin trading conditions.

Many traders were on holiday while others were holding off on fresh commitments until the release of August employment data at the end of the week. The report should confirm that July personal income in the economy has been justified.

But the US currency contributed to the downward drift, too. The long bond closely tracked the dollar as it reversed direction at mid-morning and sagged below 7100 at midday.

European government bonds pushed further ahead

yesterday following Friday's strong rally, but trading volumes were small with London markets closed for the UK summer bank holiday.

The early firmer tone to US Treasuries benefited European markets, but analysts said that further gains in Europe would be limited by concerns about fresh supply.

Yesterday saw auctions of Dutch and Swedish government debt and the launch of four-year paper for the German Treasury. Further auctions in Germany, France and Italy are scheduled for later this week.

"After Friday's rally there is a better tone to the market," said Mr Carl Haebling, head of Deutsche Bank's futures and options group in Frankfurt.

"But attention this week is on the huge supply across the whole of Europe, which is a particular worry for the German market and could mean a reversal of some of last week's gains."

In Germany, the five-year German government bond futures contract on DTF, the Frankfurt futures exchange, continued to significantly outperform the rest of the market.

"This is the story of the moment," said Mr Haebling. "It has the makings of a fairly serious short squeeze over the next couple of days."

French government bonds moved higher in line with Germany and the US. Market attention is turning to Thursday's monthly government bond auction.

Mr Edmond Alphandery, the economy minister, said at the weekend that the Treasury would launch its previously announced OAT sales to small investors in October. The scheme aims to raise about FF10bn a year.

"This is a clear change in the policy of the government and is an important step in updating the French market to international standards to attract foreign investors," said Mr Christophe Servan, bond analyst at Paribas Capital Markets in Paris.

"After the bond crisis in the first half of this year, everybody could see that retail investors feel more comfortable with holding bonds directly rather than through intermediaries, such as investment funds," he said.

## Asian hotels group signs Vietnam deal

By Nikki Tait

Accor Asia Pacific, the Asian hotels group which is listed in Australia, said yesterday that it had signed an agreement allowing its brands - including Sofitel, Novotel and Mercure - to be used in Vietnam.

It has signed a franchise agreement with a 104-room hotel in Ho Chi Minh City, which will now be known as the Hotel Mercure Saigon, and a management agreement for a second property there, to be called the Hotel Sofitel Dalat Palace.

The latter property is being refurbished and is scheduled to be fully operational by December.

Accor also said that it had signed a technical and management agreement for a 130-room Novotel hotel to be built in Dalat and opened in 1996.

Simmet, the acquisitive Australian scrap-metal company with interests in the UK, yesterday reported a profit after tax of A\$46.9m (US\$24.9m) in the year to the end of June, compared with A\$22.9m in the previous 12 months.

Sales were up to A\$742.7m from A\$574.7m, and earnings per share rose to 63.3 cents from 25.6 cents.

## Seafood price rise helps lift Irvin and Johnson

By Mark Suzman in Johannesburg

A rise in international seafood prices and improved domestic retail sales helped Irvin and Johnson, the South African food processing company, to increase after-tax income 9 per cent to R62.2m (R13.7m) from R57.0m for the year ending in June.

In spite of a 7 per cent fall in sales volumes, due largely to a decline in chicken supplies and a planned reduction in low-value seafood production, turnover rose 8 per cent to R1.77bn from R1.65bn.

Operating income increased only 5 per cent to R88.26m from R84.19m, but a 14 per cent

drop in tax paid, to R15.9m from R18.8m, helped improve overall results.

The dividend was unchanged at 83 cents.

The company said it was pressing ahead with an accelerated capital investment project to improve overall international competitiveness, noting that new capital expenditure for the year to June was R77.6m and that a further R35.2m had already been authorised.

I&J also announced it had reduced its shareholding in Namibia-based Kuiseb fish products through an issue of new shares to Namibian partners, leaving it with a 49 per cent interest in Kuiseb.

## Rabobank up 11% at halfway

By Ronald van de Krol in Amsterdam

Rabobank, the Dutch cooperative bank, lifted its net profit by 11.4 per cent to F1.654m (US\$70m) in the first half from F1.587m a year earlier, due to strong growth in lending to the corporate sector.

Interest income rose by 7.4 per cent to F13.07m. Rabobank said continuing economic recovery had led to a higher rate of investment by corpo-

rate clients in trade, industry and services.

Commission income rose by 12.3 per cent to F1.553m, with much of the growth due to securities business and to demand for investment funds managed by the Robeco Group.

Rabobank's trading on its own account was hit by the sudden increase in interest rates early in 1994. Its results on financial transactions fell into a loss of F1.19m from a profit of F1.129m a year earlier.

## Finland launches DM1.25bn FRN issue

By Graham Bowley

The Republic of Finland unveiled an otherwise quiet

## INTERNATIONAL BONDS

eurobond market yesterday as it continued its financing activities with the launch of a DM1.25bn eight-year floating rate note.

The notes, issued via a consortium of banks, carried an interest rate of 1/8 per cent over

the London interbank offered rate (Libor) with an issue price of 99.75, said lead manager Commerzbank.

There was good demand for the new issue, especially from domestic German institutions, the lead managers said. They also reported some interest from smaller continental European banks.

This latest deal by the Republic of Finland follows deals earlier in August when it tapped the Canadian dollar and Luxembourg franc sectors.

After the last issue, finance

ministry officials said Finland planned to borrow at least \$20m more in the international capital markets this year.

The latest bond will be value-dated September 15, 1994 and is scheduled for a listing on the Frankfurt securities exchange, officials said.

Elsewhere, the Greek government announced that it will issue one-year and three-year dollar-linked bonds at 6.3 per cent and 7.75 per cent annually, and one-year and three-year fixed rate Euro-linked

bonds at 7.1 per cent and 8.8 per cent annually.

The bonds will be issued tomorrow and their rates will be fixed and tax-free, the finance ministry said.

The Bank of Yokohama announced that it was planning to launch euroyen subordinated bonds in September.

Details have yet to be decided, a spokesman said. Subordinated bonds are generally issued to raise capital adequacy ratios, bank officials said.

## Comalco profits tumble to A\$26m at midway

Comalco, the Australian aluminium producer controlled by CRA, unveiled after-tax profits of A\$26.3m (US\$20m) for the half-year to end-June, sharply reduced from the A\$42.8m in the same period of 1993, writes Nikki Tait.

The figures, calculated on the statutory basis (rather

than on a joint-venture basis which includes Comalco's equity in the results of consortium companies) contained no abnormal items for 1994, but a A\$11.4m charge the previous year.

Revenues were A\$1.13bn, compared with A\$1.14bn. The company said gains in

prices had been partly offset by a less favourable US\$/A\$ exchange rate, and its smelting business operated at a loss in the first half. "However, at present metal prices this business could return to modest profitability," it added.

Comalco said the metal market remained "fragile" and

LME stocks were still at high levels. "Overhauling the market is a substantial amount of unused smelting capacity."

However, in the important Japanese and European markets, the economic outlook is brightening and metal consumption is expected to increase," it said.

**The Republic of Panama**  
U.S. \$70,000,000  
Floating Rate Serial Notes due 1990  
For the period  
30th August, 1994 to 28th February, 1995

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 7 per cent per annum, and that the interest accrued on the outstanding unpaid principal to 28th February, 1995 will be U.S. \$106.17.

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**LEGAL NOTICES**

**NOTICE OF ADJUDICATED CREDITORS' MEETING**  
AMF INTERNATIONAL LIMITED  
NOTICE IS HEREBY GIVEN pursuant to Section 95 of the Insolvency Act 1986, that a MEETING OF THE CREDITORS OF the above-named company will be held at the offices of Burt & Young, Solicitors, 1 Lambeth Palace Road, London SE1 7LU on Monday 12 September 1994 at 11.00am for the purpose of considering the proposed arrangement for the winding up of the company.

**NOTICE OF ADJUDICATED CREDITORS' MEETING**  
MAYFAIR EXECUTIVE BUSINESS CENTRES LIMITED  
Company Registration Number 1493446  
NOTICE IS HEREBY GIVEN, pursuant to section 95 of the Insolvency Act 1986, that a MEETING OF THE CREDITORS OF the above-named company will be held at the offices of Burt & Young, Solicitors, 1 Lambeth Palace Road, London SE1 7LU on Monday 12 September 1994 at 11.00am for the purpose of considering the proposed arrangement for the winding up of the company.

**NOTICE OF ADJUDICATED CREDITORS' MEETING**  
SE PROPERTY CO LIMITED  
Company Registration Number 1493446  
NOTICE IS HEREBY GIVEN, pursuant to section 95 of the Insolvency Act 1986, that a MEETING OF THE CREDITORS OF the above-named company will be held at the offices of Burt & Young, Solicitors, 1 Lambeth Palace Road, London SE1 7LU on Monday 12 September 1994 at 11.00am for the purpose of considering the proposed arrangement for the winding up of the company.

**The Financial Times plans to publish a survey on Zimbabwe**

**Zimbabwe**

**November 21**

The survey will provide an in-depth report on opportunities and economic developments in this country and will be of interest to the 28,000 business people involved in strategic decision making about international operations who are readers of the Financial Times.

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U.S. \$60,000,000  
Floating Rate  
Yen-Linked  
Notes due 1996  
For the six months 26th August, 1994 to 26th February, 1995 the Notes will carry an interest rate of 5.5125% per annum with an interest amount of U.S. \$281.75 per U.S. \$100,000 Note, payable on 27th February, 1995.

**ALLIANCE & LEICESTER**  
Alliance & Leicester Building Society  
£200,000,000  
Floating Rate Notes due 2000  
For the interest period 25th August, 1994 to 25th November, 1994, the Notes will carry a rate of interest of 5.65% per annum with interest amounts of £142.41 per £100,000 and £1,424.11 per £1,000,000 Note, payable on 25th November, 1994.

**Lloyds Eurofinance N.V.**  
£200,000,000  
Guaranteed Floating Rate Notes due 1996  
For the three months August 26, 1994, to November 25, 1994, the Notes will carry an interest rate of 5.625% p.a. with a coupon amount of £70.12, in respect of £50,000 nominal of the Notes and £280.60, in respect of £250,000 nominal of the Notes payable on November 25, 1994.

**AEGON N.V., The Hague, The Netherlands**  
INTERIM DIVIDEND 1994 AEGON N.V.

The Executive Board, with approval of the Supervisory Board, announced that for the fiscal year 1994 an interim dividend of NLG 1.30 per common share of NLG 2.50 par value, or a - to be determined - fraction of a common share of NLG 2.50, will be payable.

AEGON N.V. offers its shareholders the choice of receiving the interim dividend entirely in cash, or entirely in stock to be paid out of the tax-free paid-in surplus, or if so required, out of the net income of the first half of 1994.

The stock fraction will be determined after closing of the Amsterdam Stock Exchange on Thursday, 15 September, 1994. The closing share price of that day will be used to calculate the stock fraction, resulting in a value of the stock dividend which will range between 2% and 5% below the value of the cash dividend.

The time schedule is as follows:

26 August 1994	Start of the period of choice.
15 September 1994	End of the period of choice.
16-23 September 1994	Determination of the final stock fraction.
28 September 1994	Trade in dividend coupons to obtain rounded numbers.
	Payment of dividend.

Holders of common shares are requested to indicate their choice for dividend in shares, through their bank or broker, to N.V. Nederlandsche Administratie- en Trustkantoor, Herengracht 420, 1017 BZ Amsterdam, The Netherlands. Shareholders who wish to receive a cash dividend are requested to indicate their choice, through their bank or broker, to the principal paying agent, ABN AMRO Bank N.V.

If any shareholder, whose shares are held in custody with a bank, should not indicate a preference for cash or stock within the period of choice, the bank will automatically select the stock dividend. Shares which are not held in custody, and for which no preference for cash or stock is indicated, will receive the dividend in cash.

Note: the above dividend payment procedure does not apply to holders of New York shares.

The Executive Board

The Hague, 26 August, 1994  
50 Mariahoeveplein

**AEGON**  
Insurance Group

**Halfax Building Society**  
£100,000,000  
Collared floating rate notes due 2003

Notice is hereby given that the notes will bear interest at 7% per annum from 25 August 1994 to 27 February 1995. Interest payable on 27 February 1995 will amount to £356.71 per £100,000 note and £3,567.12 per £1,000,000 note.

Agent: Morgan Guaranty Trust Company

**JPMorgan**

**BRADFORD & BINGLEY**  
£100,000,000  
Floating rate notes 1996

Notice is hereby given that the notes will bear interest at 5.3375% per annum from 25 May 1994 to 25 August 1994. Interest payable on 25 August 1994 will amount to £134.53 per £100,000 note.

Agent: Morgan Guaranty Trust Company

**JPMorgan**

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## Disclosure plans for sales of unit trusts

By Alison Smith

Companies which sell unit trusts - pooled investment funds - are to be required to give customers more information about the investment products and about their fees and charges, under plans to be introduced next year.

The move follows the imposition of a new regime which requires companies and individuals selling life insurance policies to disclose more about the policies and the incentives paid to those who sell them. This will come into effect in January.

A consultation paper on what information should be included in the disclosure regime for other financial products, including unit trusts, is to be published by the Personal Investment Authority, the new watchdog to protect the private investor, next month.

It should have simpler requirements than for selling long-term life and investment policies - since unit trusts themselves are simpler - but the aim will be to enable customers to make a fair comparison between the different types of financial products available.

Unit trusts have been growing in popularity with private investors. In the first half of

this year net retail sales grew from £2bn to £3.9bn.

The PIA hopes to have made the detailed rules for unit trust disclosure by the end of the year, so that the new regime can be optional from January when the regime for life insurance becomes compulsory.

The similar regime for unit trusts is intended to be mandatory from next July.

The pace at which unit trusts companies adopt the new pattern of giving information to customers in advance of that date is likely to vary.

Some will want to move to the new system early, in order not to appear to be less open with customers in the sale of unit trusts than in the sale of life insurance products.

Others will want to move later in order to take account of the other changes likely to affect unit trusts next year which will require significant changes to computer systems and to the documents provided to customers.

The most important likely change is a move away from the current system of dual pricing, under which investors buy units at an "offer" price and sell at a lower "bid" price, to a system of single pricing, which is intended to make unit trusts easier to understand.

## Taking an interest can be the best option

### Simon Davies detects a change in the banks' attitude to debt-for-equity swaps

Debt-for-equity swaps have always been a last resort for British lenders, representing a feeble hope of some future pay-back, when the alternative is probably nothing.

However, the recovery of WPP Group, the advertising company, under its debt-relieved structure has enabled its backers to take a £100m profit from their shares, and has reminded banks of the potential benefits of equity participation in an improving economic environment.

As Mr Richard Lovell, president of the Association of Property Bankers, argues: "The banks' attitude towards debt-for-equity swaps has been that they are more likely to get their money out first in debt than in equity. It's down to a business culture. They don't see themselves as the right people to hold equity."

Bankers claim, however, that this is already changing. Substantial debt-for-equity swaps are being examined for Queen's Moat Hotels, Wembley, Stanhope and Tiphook, for example, and the performance of WPP can only provide encouragement.

There are a number of reasons for the change. The last-ditch alternative, receivership, is an expensive option, and it can damage the value of potentially saleable assets.

By comparison, a rising stock market, improving property valuations and low interest rates, have meant that many corporate near-failures have been given the ability to survive.

Mr Derek Sachs, director of specialised lending services at Royal Bank of Scotland, says: "The first thing to do is see if they have a viable business, regardless of the debt structure."

The Royal Bank has set up a special unit to handle bad loans, and this has spearheaded a large increase in the number of equity swaps undertaken by the bank.

In 1992 it instigated 430 receiverships, but following the introduction of its new bad debt division, this fell to 150 in 1993 and should drop to 100 this year, as it has looks for alternative solutions, such as swaps.

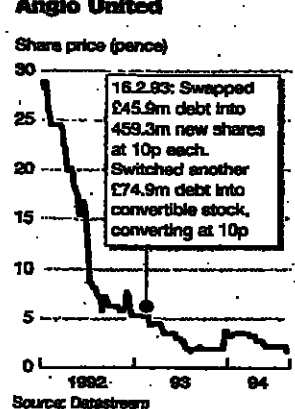
Mr Sachs says: "Traditionally, the UK clearing banks have been reluctant to convert debt into equity. We take the view that, more and more, we are looking at the overall financing of the company."

There are downsides. By initiating the swap, a bank is generally forced to make balance sheet provisions, since the value of the equity is unlikely to match that of the debt.

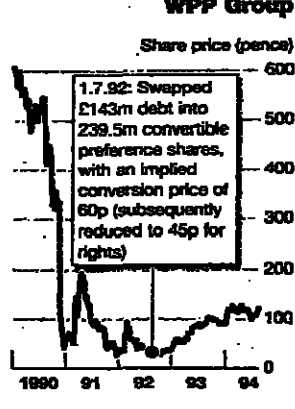
As a shareholder, the bank's call upon the assets of the company is substantially reduced, so if the company does not survive, it is unlikely to get anything back.

In addition, the size of the banking syndicates can com-

Anglo United



WPP Group



pany a market value of £16m. Even in such a case, however, the banks can still gain some recompense through the notoriously high fees for a restructuring.

In the case of Anglo United, advisers and bankers took £8.9m in fees, while WPP's restructuring cost the company £13m, of which £2m went to the banks for providing new loan facilities.

The decision often comes down to a lack of choice. The recession left many borrowers with more debt than they could ever expect to repay.

Property companies, with negative net assets, have been a prime target for swaps, since property values have been rising far more rapidly than rents and the related ability to pay interest.

Dares Estates, UK Land and Raglan Property Trust were all kept afloat through swaps which should deliver some return to bankers, where liquidation would have probably brought nothing.

One corporate financier claimed the banks had already been too slow to react to change. "They want to take equity now that values have gone up enormously," he said. "But two years ago, when they have could have benefited substantially, they were just not interested."

Given the profits achieved by WPP's bankers, however, they may be encouraged to change their minds.

£45.5m of debt into 459.3m new shares at 10p each, when the share price was only 5p. HSBC, the main lender, was left with a 40 per cent stake.

A further £74.9m of debt was swapped into convertible stock, with a 10p conversion price, and no interest, although the conversion price will be reduced to assume 10 per cent compound interest a year.

The pricing of the new shares demonstrated the severity of Anglo United's corporate ailments in February 1993, and the banks would have made large provisions against their exposure to the company.

The situation has since deteriorated. The £120m of restructured debt is worth a fraction of the original loan, as the share price has dropped to 1.34p, giving the entire com-

## New dealing regulations have little impact

By David Wighton

The new insider dealing regulations which came into force on March 1 have had little impact on the way companies communicate with the City, according to a survey published today.

The new rules, and related advice from the Stock Exchange, were seen as threatening cherished practices such as the "brokers' lunch".

However, three quarters of the companies surveyed said they had not changed their attitude to the use of brokers' lunches and only 14 per cent had altered their approach to analysts' briefings. But half said they had changed their opinion on what constituted important information that should be communicated through the Stock Exchange.

Mr Jonathan Gillen, managing director of Focus Communications, which conducted the survey, said: "The Act would appear to have had little or no effect. In reality the virtuous are still self-policing just as before. The perception that it might create a new attitude towards shareholder relations seems to have been over-stated."

The survey showed that the new rules had created a good deal of confusion among companies. More than three quarters admitted they were vague or unclear as to the implications for analysts' meetings and only half were confident they knew the implications for conducting a takeover.

"There appears to be considerable potential for someone to transgress the rules by mistake," said Mr Gillen.

The SE's suggestion that companies issue quarterly trading statements has not proved popular. Only 12 per cent of companies said they would do so with a further 20 per cent considering it. But 25 per cent said they would consider an announcement if brokers' estimates were out of line with current trading.

The sample consisted of the top 350 UK companies and a further 150 smaller companies, with replies received from 177.

## Seaperfect to float with likely £50m value

By Peggy Hollinger

A company which claims to be one of the world's largest producers of shellfish is hoping to come to the market later this year with an estimated value of about £50m.

Seaperfect plans to raise approximately £20m through an institutional placing to fund the expansion of its scallop and clam farming activities.

In May, the company raised £3m through a private placing with UK institutions.

The company's product has attracted some well-known faces to the board. Mr Andre Bernard, former co-chairman of Eurotunnel, will become a non-executive director next month, and Sir David Orr, ex-chairman of Unilever and Imbecape, is

non-executive chairman.

Seaperfect was founded in 1988 by American-born Mr William Lord-Butcher, who made his fortune in the 1980s with the sale of his direct mail marketing business to a New York investment group. He said shellfish were the perfect follow-on to computers. "We were looking for a species that was ready to be industrialised."

The company farms scallops and clams in the warm water regions of South Carolina, Florida and Chile, which Mr Lord-Butcher argues is an advantage when competing against the Japanese. On average, Seaperfect's Chilean-raised scallops take 15 to 17 months to mature, against three to seven years in Japan.

The scallops and clams are mostly for export to Europe. Most of the shellfish eaten in Europe is wild produce caught by

local fishermen trawling the sea or estuaries.

However, Mr Lord-Butcher argues that health and safety concerns mean that commercial farming - where the environment is tested on a regular basis and harvesting and processing is strictly controlled - will become increasingly important.

Seaperfect sells its scallops and clams to the catering and retail industry, before harvesting them from the field.

They are bred in protected hatcheries and the larvae nursed until old and big enough to be put out to sea.

Last year Seaperfect sold 15,000 scallops, or some 203 tonnes, by far its largest business.

Mr Lord-Butcher is confident the group can more than double sales with the funds from a flotation.

## Watson & Philip cuts trading link with Circle K Corporation

Watson & Philip, the Dundee-based food distributor and convenience store operator, is ending its long-standing business relationship with the Circle K Corporation.

Its Watson & Philip Retail operation will, by the end of October, rebrand both its

wholly owned and franchised convenience stores under the Aldays banner.

Mr David Bremner, chief executive, said the arrangement would "enable W&P Retail to operate under a single brand name and redesigned image".

## Fleming Claverhouse net assets edge ahead

Fleming Claverhouse Investment Trust had a net asset value of 195.9p per share at June 30, a modest improvement on 189p a year earlier.

Attributable revenue for the

six months to end-June amounted to £1.5m, up from £1.2m, for earnings of 2.71p (2.55p). A second interim dividend of 1.25p maintains the total to date at 3.5p.

### COMMODITIES PRICES

#### BASE METALS

■ HIGH GRADE COPPER (COMEX)

	Day's	High	Low	Open	Vol
Aug	113.50	+1.70	113.00	112.50	128 49
Sep	113.00	+1.20	114.00	111.50	11,885 4,500
Oct	112.50	+1.25	112.00	112.40	843 157
Nov	112.50	+1.30	113.00	113.00	504 17
Dec	112.50	+1.35	113.00	113.00	28,083 4,458
Jan	112.50	+1.30	113.00	113.00	422 67
Feb	112.50	+1.30	113.00	113.00	47,288 11,881

#### PRECIOUS METALS

■ GOLD COMEX (100 Troy oz; \$/troy oz)

	Day's	High	Low	Open	Vol
Aug	387.1	+3.8	387.3	387.3	58 38
Sep	387.5	+3.8	387.5	387.5	188 3
Oct	388.0	+3.8	388.0	387.7	5,062 677
Nov	387.8	+3.8	388.0	387.7	14,886
Dec	388.0	+3.8	388.0	387.7	13,239 1,007
Jan	388.0	+3.8	388.0	387.7	335
Feb	388.0	+3.8	388.0	387.7	18,919 17,577

#### PLATINUM NYMEX (50 Troy oz; \$/troy oz)

	Day's	High	Low	Open	Vol
Aug	415.7	+2.7	417.0	408.1	17,854 2,433
Sep	418.0	+2.7	420.0	412.0	4,842 77
Oct	422.7	+2.7	424.5	418.5	1,351 48
Nov	423.7	+2.7	425.5	420.5	102
Dec	423.7	+2.7	425.5	420.5	24,081 2,888

#### PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

	Day's	High	Low	Open	Vol
Aug	182.35	+0.35	182.80	180.00	1,334 318
Sep	184.25	+1.20	184.80	181.00	4,089 544
Oct	185.15	+1.80	185.80	183.75	489 7
Nov	185.15	+1.80	185.80	183.75	982 886

#### SILVER COMEX (100 Troy oz; \$/troy oz)

	Day's	High	Low	Open	Vol
Aug	542.7	+22.5	520.0	520.0	1
Sep	542.7	+22.5	545.5	518.0	24,400 14,082
Oct	550.0	+22.0	552.0	551.5	55,800 12,588
Nov	552.4	+22.1	560.0	560.0	37
Dec	558.1	+22.2	560.0	553.0	7,089 458
Jan	553.7	+22.4	560.0	553.0	11,884 27,330

#### ENERGY

■ CRUDE OIL NYMEX (42,000 US gals; \$/barrel)

	Day's	High	Low	Open	Vol
Aug	17.80	+0.54	17.87	18.06	55,812 35,767
Sep	17.80	+0.53	17.80	17.15	53,987 12,588
Oct	17.87	+0.51	17.85	17.27	47,357 8,353
Nov	17.50	+0.53	17.50	17.26	30,177 4,528
Dec	17.50	+0.49	17.50	17.40	15,829 1,241
Jan	17.50	+0.52	17.50	17.40	14,883 306
Feb	17.50	+0.52	17.50	17.40	388,134 67,527

#### HEATING OIL NYMEX (42,000 US gals; \$/barrel)

	Day's	High	Low	Open	Vol
Aug	48.10	+0.82	48.50	47.80	14,553 8,095
Sep	48.10	+0.81	48.10	48.30	38,741 8,616
Oct	48.10	+0.80	48.30	48.30	19,314 1,412
Nov	48.10	+0.78	48.10	48.30	34,085 1,720
Dec	48.10	+0.78	48.10	48.30	10,282 775
Jan	48.10	+0.78	48.10	48.30	9,274 104

#### NATURAL GAS NYMEX (10,000 mmbtu; \$/mmbtu)

	Day's	High	Low	Open	Vol
Aug	1.655	+0.008	1.679	1.680	28,285 11,880
Sep	1.655	+0.013	1.675	1.675	15,829 2,710
Oct	1.655	+0.010	1.675	1.675	22,379 1,822
Nov	1.655	+0.010	1.675	1.675	14,770 2,072
Dec	1.655	+0.010	1.675	1.675	9,880 855
Jan	1.655	+0.010	1.675	1.675	6,559 1,127

#### UNLEADED GASOLINE NYMEX (42,000 US gals; \$/barrel)

	Day's	High	Low	Open	Vol
Aug	51.00	+1.40	52.50	48.85	11,884
Sep	51.00	+1.45	52.00	48.45	24,201 12,768
Oct	51.00	+1.45	52.00	48.45	15,071 3,767
Nov	51.00	+1.45	52.00	48.45	15,071 3,767
Dec	51.00	+1.45	52.00	48.45	15,071 3,767
Jan	51.00	+1.45	52.00	48.45	15,071 3,767

#### GRAINS AND OIL SEEDS

■ WHEAT CBT (5,000 US bushels; \$/bushel)

	Day's	High	Low	Open	Vol
Aug	327.2	-1.6	328.4	325.4	6,722 3,500
Sep	327.2	-1.6	328.4	325.4	6,722 3,500
Oct	327.2	-1.6	328.4	325.4	6,722 3,500
Nov	327.2	-1.6	328.4	325.4	6,722 3,500
Dec	327.2	-1.6	328.4	325.4	6,722 3,500
Jan	327.2	-1.6	328.4	325.4	6,722 3,500

#### MAIZE CBT (5,000 US bushels; \$/bushel)

	Day's	High	Low	Open	Vol
Aug	219.0	-1.4	219.6	218.6	7,742
Sep	219.0	-1.4	219.6	218.6	7,742
Oct	219.0	-1.4	219.6	218.6	7,742
Nov	219.0	-1.4	219.6	218.6	7,742
Dec	219.0	-1.4	219.6	218.6	7,742
Jan	219.0	-1.4	219.6	218.6	7,742

#### SOYABEANS CBT (5,000 US bushels; \$/bushel)

	Day's	High	Low	Open	Vol
Aug	570.2	-0.4	571.6	569.0	10,829 2,195
Sep	570.2	-0.4	571.6	569.0	10,829 2,195
Oct	570.2	-0.4	571.6	569.0	10,829 2,195
Nov	570.2	-0.4	571.6	569.0	10,829 2,195
Dec	570.2	-0.4	571.6	569.0	10,829 2,195
Jan	570.2	-0.4	571.6	569.0	10,829 2,195

#### SOFTS

■ COCOA CBT (10 tonnes; \$/tonne)

	Day's	High	Low	Open	Vol
Aug	1383	-25	1370	1347	337 25
Sep	1408	-25	1420	1385	4,906 6,883
Oct	1408	-25	1420	1385	4,906 6,883
Nov	1408	-25	1420	1385	4,906 6,883
Dec	1408	-25	1420	1385	4,906 6,883
Jan	1408	-25	1420	1385	4,906 6,883

#### COCOA (COC) (500kg; \$/500kg)

	Day's	High	Low	Open	Vol
Aug	25	-1.00	26.00	25.00	1,100 1,100
Sep	25	-1.00	26.00	25.00	1,100 1,100
Oct	25	-1.00	26.00	25.00	1,100 1,100
Nov	25	-1.00	26.00	25.00	1,100 1,100
Dec	25	-1.00	26.00	25.00	1,100 1,100
Jan	25	-1.00	26.00	25.00	1,100 1,100

#### COFFEE (C) (500kg; \$/500kg)

	Day's	High	Low	Open	Vol
Aug	208.00	+3.15	210.80	204.75	572 279
Sep	214.00	+3.25	217.80	208.00	21,848 8,316
Oct	214.00	+3.25	217.80	208.00	21,848 8,316
Nov	214.00	+3.25	217.80	208.00	21,848 8,316
Dec	214.00	+3.25	217.80	208.00	21,848 8,316
Jan	214.00	+3.25	217.80	208.00	21,848 8,316

#### SOFTS continued

■ ORANGE JUICE NYCE (15,000c; cents/lb)

	Day's	High	Low	Open	Vol
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## THE WEEK AHEAD

## DIVIDEND &amp; INTEREST PAYMENTS

**YESTERDAY**  
Barclays Overseas Inv. 6% Gtd. Bd.  
98 Y60000.0  
Goldenfields 1p  
Greencore 3.7p

**TODAY**  
Asian 2p  
Bank of Montreal C\$0.20  
Canon 4.85% Nts. '97 Y465000.0  
Equity Consortium Inv. Tst. 13.8375p  
Do. Dtd. 27.075p  
Fidelity Trusting 3.05p  
Flamingo Am. Inv. Tst. 0.4p  
Gen. Motors Acceptance Cdn. FRN  
Nov. '96 C\$495.82  
Lloyds Fin. 6% Gtd. Bd. '04 £228.83  
Mitsui O.S.K. Lines FRN '97 Y61814.0  
NKK 6% Nts. '96 C\$108.25  
NT&T 10.9% Nts. '96 C\$108.25  
Sanyo Elect. FRN '96 Y61815.0  
Sumitomo Bk. Int. Fin. Gtd. FRN  
Aug. '96 \$2282.06  
Do. Aug. '97 \$2282.06  
3 11.5% Gtd. Bd. '96 £112.50  
Thornorton Tst. 0.5p  
Tokyo Elect. Power 6% Nts. '96  
\$437.50  
Toshiba Inds. FRN '97 Y68003.0  
WAGO 0.5p

**TOMORROW**  
Abstract New Dawn Inv. Tst. 0.5p  
Allied Colloids 3.72p  
Alliant Lon. Props 10.1% 1st Mtg.  
Dts. 94/99 £5.25  
Automated Sec. 5% Cr. Pl. 2.5p  
Bankers Inv. Tst. 0.57p  
Bank Nova Scotia Reg. Rate Sb. Dts.  
'95 \$210.83  
Bank Scotland Und. Var. Rate Nts.  
'94 £148.75  
Berkeley Grp. 5.1p  
Caterpillar Int. Inc. Fd. Pl. 20p  
Chase Manhattan FRN '97 \$124.58  
Chemical Bk. FRN '94 £57.74  
City of Oxford Inv. Tst. Inc. 1.2p  
CLM Insurance 1.3p  
Collateralised Mtg. Sec. (No.5) FRN  
'97 £116.58  
Do. (No.7) Class A1 FRN '98 £15.63  
Do. Class A2 FRN '98 £144.41  
Do. Class A3 FRN '98 £146.83  
Do. (No.8) Class A2 FRN '98 £21.09  
Do. Class A3 FRN '98 £148.70

Centre-Oxyd Inv. Tst. Inc. 2.25p  
Dance Inv. Tst. 4.575p  
Dart Grp. 2.4p  
Deby Tel. 7.102p  
Ecclesiastical Inv. 15% Dts. '18 £55.50  
EcoStar 11.5% Pl. 5.75p  
Gartmore Bt. Inc. & Gwth. Tst.  
Gard Inc. 1.82p  
Do. Units 1.82p  
Gazco Int. Inv. Tst. 1.5p  
Gibson Lyons 7% Cr. Pl. 3.5p  
Glasgow Inv. Tst. 0.6p  
Great Western Fin. 30.23  
Hill Samuel Fin. FRN '96 \$268.33  
Honor Fin. (No.2) Class A FRN '90  
£128.86  
Do. Class B FRN '90 £180.22  
IFG 40.3p  
Ivory & Sims 1985 Tst. 5.5p  
Lloyds Bank Prim. Cap. FRN (Ser.2)  
\$152.88  
Do. (Ser.3) \$209.58  
Lon. & St. Lawrence Inv. 5% Cr. Pl.  
1.75p  
Lon. & Strathclyde Tst. 5% Pl. £1.75  
Masthead Inv. Underwriting 1.7p  
Mitsubishi Bank Plg. Rate Plcpr.  
2000 \$1245.83  
Morgan Grenfell Und. Prin. Cap.  
FRN \$229.01  
Nat. West Bank Prim. Cap. FRN  
Ser. C \$121.59  
Do. Und. Var. Rate Nts. \$148.31  
OLIM Cr. Tst. 4.3p  
Parkland 4.2% Cr. Pl. 2.1p  
Preston 14.5% Cr. Pl. 7.25p  
REA Hldgs. 9p  
RPI 4.5% Un. Ln. D4/99 £2.25  
Do. 6% Un. Ln. '99/2004 £4.50  
Royal Gtd. FRN Aug. '97 \$1265.0  
Royal Bank Can. Plg. Rate Dts. 2005  
\$41.82  
Sanyo Bank Sb. FRN 2000  
\$1245.83  
Second Mtg. Inv. 2.6% Cr. Un. Ln.  
'94 £1.25  
Sanyo 7.5% Cr. Bd. '96 £38.25  
Sims 1.3p  
Sphere Inv. Tst. Inc. & Res. Cap.  
0.75p  
Do. Package Units 8p  
Standard Chart. Sb. FRN '96 £97.42  
State Dev. Institute 10.9% Gtd. Bd.  
2000 \$225.0

Temple Bar Inv. Tst. 6% Cr. Ln. '02  
£3.0  
Tid. FRN '94 £19.55  
Do. Gtd. FRN '96 £157.05  
TMC PIMBS FRN Fin. Nts. No.6  
Aug. '28 £283.79  
Do. Nts. No.1 Aug. '30 £138.47  
Do. Seventh Fin. Class A Nts. No.8  
Aug. '31 £286.97  
Do. Class B No.8 Aug. '31 £150.84  
TR City of Lon. Tst. 1.31p  
Do. 20% Non-Cr. Pl. 7p  
Do. 6% Cr. 1st Pl. 2.21p  
Do. 6% Non-Cr. 2nd Pl. 2.1p  
TR Fir East Inc. Tst. 7% Dts. '97/  
2002 £5.60  
TSE Nar. Rate Sb. Nts. '03 £144.88  
Villiers 11% Cr. Un. Ln. 94/97 5.5p  
Wallman 0.6p  
Wells Fargo FRN 2000 \$48.13  
Wellrich Bldg. Scty. Sb. FRN '01  
£3185.34

**THURSDAY SEPTEMBER 1**  
Aberdeen 10.8% Rd. '11 £5.40  
Ammerson (HP) \$0.22  
American Brands \$0.50  
American General \$0.29  
Asarco \$0.10  
Asoco. Bt. Foods 6.5p  
Barclays Bank Non-Cr. 5 P. Ser. A  
\$0.556  
Do. Ser. B \$0.5438  
Do. Ser. C1 \$0.4219  
Do. Ser. C2 \$0.1408  
Do. C Units \$0.5565  
Do. Ser. D1 \$0.4313  
Do. Ser. D2 \$0.1437  
Do. D Units \$0.5575  
Birmingham Mtd. Bldg. Scty. 9.96%  
Perm. Int. Brg. \$48.575  
Blackburn 7.5p  
Do. A NVhp. 7.5p  
Burdette Int. 0.75p  
Cable & Wireless 5.5p  
Coventry Bldg. Scty. 12.16% Perm.  
Int. Brg. £20.629  
East Surrey Water 10% Rd. Dts. '97/  
99 £5.0  
Eurocap 0.5p  
Flamingo Clearhouse Inv. Tst. 1.25p  
Flamingo Mercantile Inv. Tst. 1.575p  
Ford Motor \$0.225  
Gowat \$0.11  
Halifax Bldg. Scty. 8.94% Perm. Int.

Brg. £2187.50  
Do. 12% Perm. Int. Brg. £3000.0  
Inco \$0.10  
Ingersoll Rand \$0.185  
Lon. County 5.1% Cons. £0.625  
Do. 3% Cons. £0.75  
Low & Bonar 6% 1st Cr. Pl. 2.1p  
Do. 6% 2nd Cr. Pl. 2.1p  
Do. 5.9% 3rd Cr. Pl. 1.925p  
Lucas Inds. 6.6% Cr. 1st Pl. 2.275p  
Met. Water Board 5% B 1984/2003  
£1.50  
Meadco 16.5% Ln. '98 £3.25  
Nat. Home Loans FRN '95 \$1.48  
Oldham Borough Council 7.94% Rd.  
'10 £5.625  
P & O 3.5% Dts. £1.75  
Do. 3.9% 2nd Dts. £1.75  
River Plate & Gen. Inv. Tst. 5% Pl.  
£1.75  
Rowe Evans 2p  
Sarnbury (4) 8% Ind. Un. Ln. £4.0  
Schneider 6% Cr. Pl. 2.1p  
Slough Ests. Cr. Pl. 4.105p  
South West Water 17.1p  
Starks 0.65p  
Thames Inv. FRN '97 \$222.38  
Thames Water 15.1p  
Thameswater Pipelines 16.5% 1st  
Mtg. Pipe Line Bd. '07 \$2.25p  
Treasury 6.9% Ln. '97 \$4.375  
Union Carbide \$0.1875  
USLIFE \$0.31  
Wilm Inv. 8% Dts. 96/99 £4.0  
Do. 6.94% Exch. Bd. '08 £31.25

**FRIDAY SEPTEMBER 2**  
Aberforth Smaller Co's Tst. 2.1p  
Aberforth Split Level Tst. 2.45p  
Do. Units 2.45p  
Do. C 1.11p  
Boeing \$0.25  
Ivory & Sims 5.25p  
Lafayette 10.6-11.94% Stppd. Int. 1st  
Mtg. Dts. '12 £5.625  
Lloyds Bank Sb. FRN '96 £14.97  
Meyer Int. 6.5p  
Miggle 0.5p  
Shaw (Artel) 1.5p  
Sturge 1p

**SATURDAY SEPTEMBER 3**  
Conv. 9% 2000 £4.50

## UK COMPANIES

**TODAY**  
COMPANY MEETINGS:  
Abstract New Dawn Inv. Tst. 96.  
Charterhouse Street, E.C., 12.30  
Coal Trwa., 22, Tudor Street, E.C.,  
10.00  
BOARD MEETINGS:  
Fina:  
Cathay Int.  
Lombard Insurance  
Verity  
Interim:  
Aetec (BSR)  
Beckenham  
Buckingham Int.  
Dixon Motors  
Guinness Post  
London Fin. & Inv.  
Macfarlane  
RUS Mining  
Stewart & Wight

**TOMORROW**  
COMPANY MEETINGS:  
Alphaville, 50, Stratton Street, W.,  
11.00  
Bucknell Grp., 5, Scotland Street,  
Birmingham, 12.00  
Donalson Tyres, Manchester Airport  
Hilton Hotel, Manchester, 3.30

**BOARD MEETINGS:**  
Fina:  
Fletcher Challenge  
IAF Grp.  
Newmark (Lous)  
Interim:  
Cairn Energy  
Dunlop Hunter  
Johnston Press  
Mowlem (John)  
Parsons  
Provident Fin.  
Paton  
Roper  
Sarco  
Spring Ram

**THURSDAY SEPTEMBER 1**  
COMPANY MEETINGS:  
Alba, Harvard House, 14-16,  
Thames Road, Barking, Essex, 11.00  
Carole Eng., Holiday Inn, Leeds,  
4.00  
Claythorpe, Naval & Military Club, 94,  
Piccadilly, W., 12.00  
EPM Japan Tr., Donkison House,  
97, Haymarket Terrace, Edinburgh,  
12.00  
Morris Ashby, 16, Freshbourn  
Road, Witham, Essex, 2.30

Prism Leisure, Enfield Hotel, 52,  
Rowantree Road, Enfield, 10.00  
**BOARD MEETINGS:**  
Fina:  
Courtward Leisure  
Lynn Printing Tech.  
Interim:  
Anglo Pacific  
Barr & Wallace Arnold Ltd.  
British-Somerset Petroleum  
Castles Hldgs.  
Edgemoor Hldgs.  
Hartono  
Ladbroke  
Lilliput  
Page (Michaels)  
Quarto  
Reckitt & Colman  
Rolle-Royce  
Silvermines  
T & N  
Upt. Gardens  
Victoria  
Waterford Wedgwood  
Wilsons Hldgs.

**FRIDAY SEPTEMBER 2**  
COMPANY MEETINGS:  
European Motor Hldgs., Bank of  
America House, 25,

Cannon Street, E.C., 12.00  
GEC, Grosvenor House, Park Lane,  
W., 12.00  
Kierulff (John), George Hotel, 21,  
George Street, Edinburgh, 12.15  
Victoria Carpet, Green Street,  
Kiddminster, 3.00  
**BOARD MEETINGS:**  
Fina:  
Cantora  
Haynes Publishing  
Isotron  
TR City of London Tst.  
Interim:  
Fila Indier  
Hendy  
Pearson  
Schrodans

Company meetings are annual  
general meetings unless otherwise  
stated. \*  
Please note: Reports and accounts  
are not normally available until  
approximately six weeks after the  
board meeting to approve the  
preliminary results.

OUR 91% GROWTH  
IN EXPORTS CAN BE TRACED TO  
A SINGLE DROP OF WATER.



OR TO A BEAD OF SWEAT.

IT ALL STARTED WITH A DROP OF WATER, WHEN WE PIONEERED THE CONCEPT  
OF MICRO-IRRIGATION IN INDIA.  
BUT OUR VISION EXTENDED BEYOND THE BOUNDARIES OF OUR COUNTRY. TO SOME  
OF THE TOUGHEST MARKETS IN THE WORLD. BEYOND TODAY. INTO A FUTURE  
ONLY A FEW DARE TO DREAM OF.  
THE RESULT IS AN AMAZING GROWTH IN EXPORTS YEAR AFTER YEAR. AND A FUTURE  
THAT LOOKS EVEN BRIGHTER. WITH SUNRISE PROJECTS LIKE TISSUE CULTURE,  
GREENHOUSES, LIQUID FERTILIZERS, SOLAR WATER HEATING SYSTEMS AND HIGH  
PERFORMANCE ENGINEERING PLASTICS.  
ALL THIS CAN BE TRACED TO THAT SMALL DROP OF WATER. OR TO THE HARD WORK  
AND UNTIRING EFFORTS OF EVERY SINGLE PERSON AT JAIN IRRIGATION.

Net Sales	£ 19.53Mn	47%
Export Sales	£ 8.73Mn	91%
Operating Profit	£ 5.37Mn	86%
Earnings Per Share	27 p	50%



Talking about how much one earns is bad form.  
Once a year, however, we break the code.



May we present our financial highlights for the year ended 31st March, 1994

	April 92-March 93 (Rs. Million)	April 93-March 94 (Rs. Million)	% Increase
Income	3,392	3,019	26
Gross Operating Profit	899	950	56
Pre Tax Profit	412	475	15
Foreign Exchange Earnings	1,654	1,944	19
Book Value Per Share (Rs.)	72.35	93	29
Earnings Per Share (EPS) (Rs.)	16.81	27.69	64

Return on total capital employed rose from 4.2% to 17%. Market Capitalisation up from  
Rs. 5,888 million to Rs. 20,958 million. Recommended bonus of 1 share for every  
1 existing share and dividend of 62.5%, up from 50%.

Add to this a few significant trends. Our EPS has moved from Rs. 6.1 per share in 1991 to  
Rs. 26.07 in 1994. (This despite a 1.3% increase in 1993 Profit after tax from Rs. 90  
million in '91 to Rs. 520 million in '94. And dividends up to Rs. 140 million from Rs. 37  
million in the same period. Reason enough, we believe, to break the code.

THE JAIN GROUP OF HOTELS

THE JAIN LUXURY HOTELS ARE THE JAIN MANAL HOTEL BOMBAY - THE JAIN MANAL HOTEL NEW DELHI - JAIN MANAL HOTEL  
TAN WEST END, BANGALORE - JAIN MANAL HOTEL MADRAS - JAIN MANAL HOTEL CALCUTTA  
FOR RESERVATIONS CONTACT: BOMBAY 91-22-2623564, NEW DELHI 91-11-2623564, BANGALORE 91-80-2623564, CALCUTTA  
91-33-2482939, MADRAS 91-44-4272727, U.S.A. 1-800-FLY-JAIN TOLL FREE U.S. 1-800-954-9999

TURNOVER  
OVER  
RS. 5000 Million  
— Up by 80%

GROSS PROFIT  
OVER  
RS. 830 Million  
— Up by 89%

81% GROWTH IN  
EPS (RS. 10.14)  
despite 27% times increase  
in Capital

RS. 6000 MILLION  
INVESTMENT IN  
PAPER AND CEMENT  
— commissioning in 1994

# THE POWER OF PERFORMANCE

## AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31ST MARCH 1994

PARTICULARS	RS. IN MILLION		
	YEAR ENDED MARCH 31, 1994	YEAR ENDED MARCH 31, 1993	INCREASE %
SALES AND OTHER INCOME	5986.2	3934.8	51
NET SALES AND OTHER INCOME	4034.8	2705.1	49
TOTAL EXPENDITURE	4101.4	2282.7	79
PROFIT BEFORE INTEREST AND DEPRECIATION	633.2	411.4	53
DEPRECIATION	163.0	158.3	3
PROFIT BEFORE TAX	287.2	127.2	127
PROVISION FOR TAXATION	—	35.5	—
NET PROFIT	287.2	108.7	264
PAY-UP EQUITY SHARE CAPITAL RESERVES (including Retention Reserve)	331.4	144.0	131
	2336.5	1637.8	42

NOTES:  
1. Working results for the year 1993-94 include the operations of erstwhile  
Orissa Synthetics Ltd. merged with the Company.  
2. Other Income for the year 1993-94 Rs. 165.4 Million (Previous Year  
Rs. 105.0 Million)

### HIGHLIGHTS

- Paper capacity to increase from 60,000 to 75,500 tonnes.
- Cement capacity to increase from 0.6 to 1.5 million tonnes and the unit  
recently got ISO 9002 Certification.
- JK Magnetics: Three-fold increase in production in last 4 years.
- Production at Orissa Synthetics increased from 14505 tonnes to  
21628 tonnes in 1993-94. First to get ISO 9002 Certification for its  
entire range of products.

JKCORP



## WORLD STOCK MARKETS

[illegible]

INDICES										US INDICES											
1994										1994											
Aug 29	Aug 26	Aug 25	High		Low					Aug 29	Aug 26	Aug 25	High		Low						
<b>Argentina</b>										<b>Dow Jones</b>											
General (20/12/77)	(4) 20785.52		20540.89		20740.49		1892		17795.99	2094											
<b>Australia</b>										<b>Industrials</b>											
All Ordinaries (1/1/80)	2111.8	2077.2	2077.8	2240.00	32	1887.40	276			3891.05	3829.89	3846.73	3737.58	3593.35	3876.98	41.22					
All Mining (1/1/80)	1077.9	1051.9	1047.9	1238.10	32	994.00	55			Home Bldg	97.78	97.51	97.71	105.61	98.43	100.77	54.69				
<b>Austria</b>										<b>Transport</b>											
Vienna Index (20/12/94)	4222.9	4185.5	4177.8	468.88	32	385.57	225			Unilever	181.44	180.99	180.52	188.28	194.02	188.29	12.32				
Yushted Index (2/1/91)	1143.67	1131.70	1122.44	1222.35	12	1011.38	98			Woolworth	188.44	186.99	186.24	222.17	238.44	222.17	18.35				
<b>Belgium</b>										<b>US Ind. Day's High</b>											
BELEX-1 (1/1/91)	1497.78	1463.84	1469.22	1542.85	42	1382.98	137			<b>Day's High (2005.12) Low (2005.12) (Theoretical)</b>											
<b>Brazil</b>										<b>Standard and Poors</b>											
Bovespa (20/12/93)	(4) 52143.0		53548.0		53858.00		228		Compo 31	473.80	468.88	468.03	482.88	438.82	534.03	4.40					
<b>Canada</b>										<b>Industrials</b>											
S&P 500 (1/1/80)	1380.24	1372.59	1384.57	1585.30	32	1288.38	47			General	558.21	548.11	548.05	589.38	510.05	589.38	3.62				
TSX 300 (1/1/80)	2075.75	2051.25	2051.25	2285.50	22	1955.18	47			Financial	45.48	45.88	45.17	48.94	41.38	45.48	8.04				
<b>France</b>										<b>NYSE Comp.</b>											
CAC 40 (20/12/94)	2075.75	2051.25	2051.25	2285.50						Amex Ind Yr	448.50	447.12	447.38	482.88	422.87	482.88	28.21				
<b>Germany</b>										<b>NASDAQ Comp</b>											
DAX (20/12/94)	3851.89	3811	382.39	418.79	32	358.60	226			NASDAQ Comp	782.94	754.00	751.72	805.93	683.78	805.93	51.87				
<b>Finland</b>										<b>NYSE Comp.</b>											
HSE 20 (20/12/94)	1948.5	1914.2	1918.0	1972.00	42	1891.19	31			NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>Italy</b>										<b>NYSE Comp.</b>											
ISEQ 100 (1/1/80)	2075.75	2051.25	2051.25	2285.50						NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>Japan</b>										<b>NYSE Comp.</b>											
Nikkei 225 (1/1/80)	2075.75	2051.25	2051.25	2285.50						NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>South Africa</b>										<b>NYSE Comp.</b>											
JSE 400 (20/12/94)	2075.75	2051.25	2051.25	2285.50						NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>Spain</b>										<b>NYSE Comp.</b>											
IBEX 35 (20/12/94)	2075.75	2051.25	2051.25	2285.50						NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>Sweden</b>										<b>NYSE Comp.</b>											
OMX 20 (20/12/94)	2075.75	2051.25	2051.25	2285.50						NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>Switzerland</b>										<b>NYSE Comp.</b>											
SIX 30 (20/12/94)	2075.75	2051.25	2051.25	2285.50						NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>Taiwan</b>										<b>NYSE Comp.</b>											
TSE 200 (20/12/94)	2075.75	2051.25	2051.25	2285.50						NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>UK</b>										<b>NYSE Comp.</b>											
FTSE 100 (20/12/94)	2075.75	2051.25	2051.25	2285.50						NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>US</b>										<b>NYSE Comp.</b>											
S&P 500 (1/1/80)	1380.24	1372.59	1384.57	1585.30	32	1288.38	47			NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>US</b>										<b>NYSE Comp.</b>											
S&P 500 (1/1/80)	1380.24	1372.59	1384.57	1585.30	32	1288.38	47			NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>US</b>										<b>NYSE Comp.</b>											
S&P 500 (1/1/80)	1380.24	1372.59	1384.57	1585.30	32	1288.38	47			NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>US</b>										<b>NYSE Comp.</b>											
S&P 500 (1/1/80)	1380.24	1372.59	1384.57	1585.30	32	1288.38	47			NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>US</b>										<b>NYSE Comp.</b>											
S&P 500 (1/1/80)	1380.24	1372.59	1384.57	1585.30	32	1288.38	47			NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>US</b>										<b>NYSE Comp.</b>											
S&P 500 (1/1/80)	1380.24	1372.59	1384.57	1585.30	32	1288.38	47			NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
<b>US</b>										<b>NYSE Comp.</b>											
S&P 500 (1/1/80)	1380.24	1372.59	1384.57	1585.30	32	1288.38	47			NYSE Comp.	280.82	283.18	283.81	287.21	243.14	287.21	4.46				
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<b>US</b>										<b>NYSE Comp.</b>											
S&P 500 (1/1/80)</																					

\* Sat Aug 27; Taiwan Weighted Price 6553.04; Korea Comp Ex 941.23. Base values of all indices are 100 except: Australia All Ordine and Mining - 500; Austria Tracked, BEL20, HSE Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp/Metals. Minerals and OX - all 1,000; JSE Gold - 258.7; JSE 29 Industrials - 284.3; NYSE All Common - 50 and Standard and Poor's - 10. \$ Montreal. † Toronto. (c) Closed. (u) Unavailable. ‡ JKS/OX after-hours index Aug 29 = 2215.72 +25.14

† Correction. \* Calculated at 15.00 GMT. † Excluding bonds. ‡ Industrial, plus Utilities, Financials and Transportation.  
 § The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

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## CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

Aug 29	Closing mid-point	Change on day	30-day forward	60-day forward	90-day forward	12-month forward	Bank of England
Europe							
Austria (Sch)	17.0588	+0.0015	475 - 888	17.1222	17.7853	17.0526	0.3
Belgium (Bfr)	48.9190	+0.0021	805 - 575	50.1540	48.4100	48.9190	0.1
Denmark (Dkr)	9.0221	+0.0001	0.047 - 0.04	9.0200	9.0104	9.0104	-1.0
France (Ffr)	7.2344	+0.0016	242 - 448	7.2300	7.2220	7.2300	-0.7
Germany (Mk)	6.2820	+0.0004	910 - 010	6.2828	6.2848	6.2828	-0.5
Greece (Dr)	2.4227	+0.0019	222 - 251	2.4247	2.4104	2.4239	-0.1
Italy (Lit)	977.247	+0.0017	157 - 020	980.372	965.497	977.247	-0.7
Japan (Yen)	161.211	+0.0025	113 - 126	161.222	161.113	161.211	-0.7
Netherlands (Gld)	244.824	+0.0015	722 - 040	244.824	244.824	244.824	-0.2
Portugal (Esc)	204.422	+0.0021	0.038 - 0.03	204.422	204.422	204.422	-0.4
Spain (Ptas)	166.666	+0.0015	210 - 210	166.666	166.666	166.666	-0.2
Sweden (Kron)	10.3514	+0.0025	304 - 304	10.3514	10.3514	10.3514	-0.4
Switzerland (Sfr)	2.0037	+0.0001	0.001 - 0.00	2.0037	2.0037	2.0037	-0.4
UK (Sterling)	1.0000	+0.0000	0.000 - 0.00	1.0000	1.0000	1.0000	-0.4
USA (Dollar)	1.6270	+0.0005	0.007 - 0.00	1.6270	1.6270	1.6270	-0.4
Other							
Argentina (Peso)	1.5300	+0.0108	303 - 315	1.5340	1.5272	1.5340	0.0
Brazil (Real)	1.2728	+0.0003	718 - 738	1.2738	1.2698	1.2738	0.0
Canada (Can)	0.6222	+0.0001	0.001 - 0.00	0.6222	0.6222	0.6222	0.0
China (Yuan)	8.2700	+0.0000	0.000 - 0.00	8.2700	8.2700	8.2700	0.0
India (Rupee)	5.1700	+0.0000	0.000 - 0.00	5.1700	5.1700	5.1700	0.0
Japan (Yen)	1.6270	+0.0005	0.007 - 0.00	1.6270	1.6270	1.6270	0.0
South Korea (Won)	1.0000	+0.0000	0.000 - 0.00	1.0000	1.0000	1.0000	0.0
Taiwan (Dollar)	1.0000	+0.0000	0.000 - 0.00	1.0000	1.0000	1.0000	0.0
Thailand (Baht)	1.0000	+0.0000	0.000 - 0.00	1.0000	1.0000	1.0000	0.0
Other							

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Aug 29	Closing mid-point	Change on day	30-day forward	60-day forward	90-day forward	12-month forward	JP Morgan
Europe							
Austria (Sch)	11.1410	+0.0015	385 - 425	11.2125	11.0550	11.1410	0.0
Belgium (Bfr)	32.8505	+0.0021	910 - 200	32.7000	32.8505	32.8505	-0.5
Denmark (Dkr)	9.0221	+0.0001	0.047 - 0.04	9.0200	9.0104	9.0104	-1.0
France (Ffr)	7.2344	+0.0016	242 - 448	7.2300	7.2220	7.2300	-0.7
Germany (Mk)	6.2820	+0.0004	910 - 010	6.2828	6.2848	6.2828	-0.5
Greece (Dr)	2.4227	+0.0019	222 - 251	2.4247	2.4104	2.4239	-0.1
Italy (Lit)	977.247	+0.0017	157 - 020	980.372	965.497	977.247	-0.7
Japan (Yen)	161.211	+0.0025	113 - 126	161.222	161.113	161.211	-0.7
Netherlands (Gld)	244.824	+0.0015	722 - 040	244.824	244.824	244.824	-0.2
Portugal (Esc)	204.422	+0.0021	0.038 - 0.03	204.422	204.422	204.422	-0.4
Spain (Ptas)	166.666	+0.0015	210 - 210	166.666	166.666	166.666	-0.2
Sweden (Kron)	10.3514	+0.0025	304 - 304	10.3514	10.3514	10.3514	-0.4
Switzerland (Sfr)	2.0037	+0.0001	0.001 - 0.00	2.0037	2.0037	2.0037	-0.4
UK (Sterling)	1.0000	+0.0000	0.000 - 0.00	1.0000	1.0000	1.0000	-0.4
USA (Dollar)	1.0000	+0.0000	0.000 - 0.00	1.0000	1.0000	1.0000	-0.4
Other							
Argentina (Peso)	1.5300	+0.0108	303 - 315	1.5340	1.5272	1.5340	0.0
Brazil (Real)	1.2728	+0.0003	718 - 738	1.2738	1.2698	1.2738	0.0
Canada (Can)	0.6222	+0.0001	0.001 - 0.00	0.6222	0.6222	0.6222	0.0
China (Yuan)	8.2700	+0.0000	0.000 - 0.00	8.2700	8.2700	8.2700	0.0
India (Rupee)	5.1700	+0.0000	0.000 - 0.00	5.1700	5.1700	5.1700	0.0
Japan (Yen)	1.6270	+0.0005	0.007 - 0.00	1.6270	1.6270	1.6270	0.0
South Korea (Won)	1.0000	+0.0000	0.000 - 0.00	1.0000	1.0000	1.0000	0.0
Taiwan (Dollar)	1.0000	+0.0000	0.000 - 0.00	1.0000	1.0000	1.0000	0.0
Thailand (Baht)	1.0000	+0.0000	0.000 - 0.00	1.0000	1.0000	1.0000	0.0
Other							

## CROSS RATES AND DERIVATIVES

## EXCHANGE CROSS RATES

Aug 29	BFF	DMC	FFY	DMC
Belgium	(BFF) 10.00	19.23	18.82	4.95
Denmark	(BFF) 51.98	10	0.840	2.52
France	(FFY) 80.17	11.57	10	2.32
Germany	(BFF) 20.29	3.58	3.62	2.32
Ireland	(BFF) 49.53	9.458	8.198	2.32
Netherlands	(BFF) 2.038	0.362	0.398	0.09
Norway	(BFF) 18.36	3.531	3.051	0.68
Portugal	(BFF) 46.98	9.033	7.904	2.28
Spain	(BFF) 20.25	9.955	3.395	0.95
Sweden	(BFF) 24.62	7.715	4.455	1.05
Switzerland	(BFF) 42.19	8.105	10.00	2.32
United Kingdom	(BFF) 24.38	6.686	4.049	1.15
USA	(BFF) 49.92	8.000	8.296	2.68
Canada	(BFF) 38.82	4.581	3.953	1.15
Japan	(BFF) 32.61	8.272	5.491	1.68
Germany	(BFF) 32.64	8.298	6.048	1.68
France	(BFF) 32.64	7.555	6.627	1.68

Aug 29 19:00: Danish Kroner







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**FINANCIAL TIMES**

## Financial



**NASDAQ NATIONAL MARKET**

4 mm class: 4/17/87 29

Stock	Ch.	P	St	Th	High	Low	Last	Clng	Stock	Ch.	P	St	Th	High	Low	Last	Clng	Stock	Ch.	P	St	Th	High	Low	Last	Clng
AKS Inc.	0.20	19	2	13	13	13	13	+	Deleco Co.	0.00	49	17	32	33	32	32	+	Parsons B.	0.12	9	147	17	16 1/2	16 1/2	16 1/2	+
AKS Corp.	0.125	1294	1282	17	16	17	17	+	Detroit	0.11	254	23	22	23	22	24	+	Payson	0	160	87	87	87	87	87	+
Alcoa	0.12	2178	2184	14	14	14	14	+	Dynalene	0.00	10	10	10	10	10	10	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	21	1182	25	34	34	34	34	+	EastChem	0.16	18	33	18	18	18	18	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	30	380	265	25	24	24	24	+	Deputy	0.3	1003	37	37	37	37	37	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
Alcoa Ind.	18	2513	204	20	20	20	20	+	Deputy	0.12	9	13	33	33	33	33	+	Pharmacia	0.11	247	247	247	247	247	247	+
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**4 pm close August 29**

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- J -									
J&J Snack	14	105	12 <sup>1/2</sup>	12 <sup>1/2</sup>	12 <sup>1/2</sup>	+1/2			
Jason Inc	0.25	14	9	9 <sup>1/2</sup>	9 <sup>1/2</sup>				
J&E Ind	0.10	31	188	138 <sup>1/2</sup>	35	32 <sup>1/2</sup>	+1/2		

+	James Int	11	323	15 1/4	15	15 1/4	+1/8	Pompa	16	23	6	6	8		
-3/8	James Med	0.10	10	345	7 1/2	6 3/4	-3/8	Pres Life	0.08	3	930	6 3/4	6 3/4	6 3/4	
	James Med	1.00	10	345	7 1/2	6 3/4	-3/8	Presstek	175	1506	48 1/2	48 1/2	47 3/4	-3/4	2000

SSB Ro	0.80	17	42	27½	27	27	½	Pride Pot	37	215	5	4½	4½	Yellow
Juno Lq	0.28	19	274	10	18½	18½	½	Printout	27	45	18½	15½	15½	York
Justin	0.16	9	1123	12½	11½	12	½	Prod Gas	0.24	23	19	26½	25½	25½

Figure 1. The effect of the concentration of the  $\text{H}_2\text{O}_2$  solution on the amount of the released  $\text{H}_2\text{O}$  from the  $\text{H}_2\text{O}_2$ -sensitive hydrogel. The amount of the released  $\text{H}_2\text{O}$  was measured by the weight difference of the hydrogel before and after the swelling process. The concentration of the  $\text{H}_2\text{O}_2$  solution was 0.1, 0.2, 0.3, 0.4, 0.5, 0.6, 0.7, 0.8, 0.9, and 1.0 wt. %.



AMERICA

# Commerce data take Dow up again

## Wall Street

US stocks forged ahead yesterday morning as investors ignored a flat bond market and built on last week's powerful rally, writes Frank McCorty in New York.

By 1pm, the Dow Jones Industrial Average was 18.12 stronger at 3,899.17, within reach of its highest closing level since just after the Federal Reserve's shift to tighter credit in early February.

The more broadly based Standard & Poor's 500 was 1.23 firmer at 475.08. Volume on the Big Board was moderate, with 157m shares traded by early afternoon. In the secondary markets, the American SE composite was 0.59 ahead at 450.15 and the Nasdaq composite put on 1.24 at 764.34.

Early on, modest gains by bonds and a further improvement in the dollar provided a supportive backdrop for stocks. The catalyst was welcome news from the Commerce Department that July personal income had risen 0.5 per cent from the previous month's figure, while personal consumption had edged 0.2 per cent higher. Both figures were consistent with the impression of moderate growth and low inflation.

By mid-morning the dollar began to reverse direction and bonds followed suit amid thin summertime trading conditions. Stocks stumbled briefly, but were driving higher again within an hour.

Many of the cyclical issues which had led the Dow industrials in a powerful 12th-point advance last week paused yesterday.

terday, Caterpillar gave back \$1 at \$114 and Alcoa advanced just \$1 to \$81.

But International Paper remained strong, leading a generally buoyant paper and pulp sector with a gain of \$1 1/4 to \$76 1/4. Elsewhere in the group, Stone Container climbed \$1 1/4 to \$119 and Georgia Pacific \$1 1/4 to \$73 1/4.

McDonald's was marked up \$1 1/4 to \$28 1/4 on favourable press comment about the company's growth prospects.

Merger and acquisition news figured prominently in the morning's activity. ITT dropped \$3 to \$82 1/4 after agreeing to pay a premium price for Viacom's Madison Square Garden businesses. Its partner, Cablevision, slipped \$4 to \$57 1/4, while Viacom was down \$4 to \$58.

The pharmaceuticals industry

appeared to be poised for further consolidation with the Marion Merrell Dow's announcement that it was exploring a possible sale of the company. Its majority owner, Dow Chemical, jumped \$2 1/4 to \$73 1/4 on the news, while MMD was marked up \$2 to \$24 1/4.

On the Nasdaq, Nextel Communications tumbled \$5 1/4 to \$24 1/4 following the expiration of its agreement to form a wireless network with MCI and Comcast.

## Canada

Toronto moved higher in moderate midday trade, but gains were modest as the market paused after last week's upward momentum.

The TSX-300 composite index added 4.30 points at 4,308.73 in turnover of 28.9m shares.

Advances outscored declines by 289 to 238, with 254 issues steady.

Of 14 sub-indices, nine climbed. The transportation sector gained 80.97, or 1.9 per cent, at 4,963.12, spurred by rises in Trimac and Laidlaw "B" shares. Trimac put on \$2 1/4 to \$41 1/4 while Laidlaw added \$2 1/4 to \$41 1/4 in brisk trade.

Communications and media

advanced 70.85, or 0.8 per cent, to 8,826.89.

## Brazil

Sao Paulo was 1.6 per cent lower in light midday trade as an expected high rate of August inflation in the forthcoming IPCR index continued to take its toll of share prices.

The Bovespa index declined 819 to 51,224 in weak volume of R\$63.6m (\$63.2m).

# Conflicting influences on Stockholm bourse

Christopher Brown-Humes charts Swedish equities

The Swedish stock market has been getting plenty of what it likes in recent weeks, as a stream of interim reports from the big multinationals have more than matched expectations.

Unfortunately, there have been equally big doses of what it dislikes: volatile interest rate and currency movements, lowered economic growth forecasts and a lot of political uncertainty. Given the two competing influences, it is not surprising that shares have struggled to make headway.

But making headway they are. Progress is modest but equities are still in positive territory for the year to date. At yesterday's close, the Allshare General Index stood at 1,622.30, up 3.40 on the day.

The central bank's increase in key interest rates earlier this month, the first for nearly two years, gave the stock market its biggest jolt since the country's November 1992 devaluation. In three days, shares plunged by 5 per cent, wiping out the year's entire advance.

The mood remains nervous. Sweden is entering the run-up to September's general election and a referendum on membership of the European Union in November. The markets are fast becoming reconciled to the prospects of a Social Democratic government, which is well ahead in the polls, but they are still troubled about the state of the country's finances.

The SKR61bn budget strengthening programme announced 10 days ago has brought bond yields down; but there is a widespread feeling that the sums are inadequate and the market remains unsettled.

Mr Mike Young, Merrill Lynch's director of European investment strategy, says the market will remain nervous "at least until we see what kind of initial budget steps are taken". "The market can only discount probabilities until we see reality," he adds. Among other things, the Social Democrats plan to increase capital

gains taxes and restore double taxation of dividends.

Bond and stock markets have decoupled somewhat in recent days, with shares managing to climb in spite of bond market volatility. This is partly because there is rising optimism about the corporate outlook and a Swedish entry into the EU. Even so, equities remain overshadowed by developments in the bond market, not least because rising long-term interest rates have led to a readjustment of economic growth rate projections.

The general view now is that Sweden's economy will grow by 1.5 per cent to 2.0 per cent this year, rather less than the

specialist, and Volvo, are also expected to produce spectacular figures.

Astra, the biggest Swedish company by market capitalisation, has seen a particularly strong rise in its share price over the last few days in a run which has partly been fuelled by takeover speculation.

One sector which is experiencing a particular revival is pulp and paper, where rising prices and operating rates are starting to feed a strong profits recovery. Stora, Europe's biggest pulp and paper group, confirmed this trend last week, increasing profits to SKr1.51bn from SKr530m.

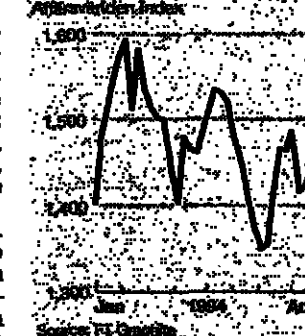
The 25 per cent fall in the value of the krona over the last two years, heavy cost-cutting and the improving economic outlook in the US and Europe provide the platform from which the strong corporate revival is being made.

It explains why Kleinwort Benson in London was expecting Swedish corporates' first-half operating profits to improve by 107 per cent and pre-tax profits by 141 per cent even before the interim reporting season got under way. And it explains why the market has its supporters even during the current turbulence.

In the longer term, the market's ability to outperform will still depend on the political arena. Should the next few months produce a "yes" to Europe and a tough budget strengthening package, interest rates should fall on a strengthening krona.

This would provide a solid background for further equity market gains, especially as corporate profits are expected to make the domestic economy. Indeed, they may benefit from a difficult economic climate at home if it holds down wage costs and prices and keeps the Swedish currency weak.

The current results season has provided plenty of cheer, with a string of impressive results from such heavyweights as SKF, Ericsson and Electrolux. Companies still to report, including Astra, the high-flying pharmaceuticals



Source: Reuters

2.0 per cent to 2.5 per cent forecast earlier. The gloomier view was reinforced last week when several leading banks indicated that their 1994 results would be hit by worries over the state of the economy.

In spite of this, shares have been making headway precisely because the country's blue chips, with 80 to 90 per cent of their sales abroad, are so insulated from the problems in the domestic economy. Indeed, they may benefit from a difficult economic climate at home if it holds down wage costs and prices and keeps the Swedish currency weak.

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## EUROPE

# SBF acts to curb Euro Disney bloodletting

The absence of UK business took its toll on the bourse yesterday morning, but the afternoon saw more action after a lively start on Wall Street, writes Our Markets Staff.

PARIS ended higher, the CAC 40 index advancing 12.53 to 2,075.27. But on a thin day, with turnover of FF2.4bn, any satisfaction professionals might have had was marred by Euro Disney and Danone.

The leisure group, suspended limit down on Friday, was twice suspended yesterday for the same reason as it fell by 10 per cent, and then by a further 5 per cent. Finally, the French Bourses Association, SBF, said it had put a FF7.75 floor under the shares for the day, and would not execute orders below that price.

Euro Disney was finally FF1.10, or nearly 12 per cent, lower at FF8.40 after bottoming out at FF7.75, depressed by poor prospects and the lack of apparent value in the stock. Danone, the food group, dropped FF0.32, or 3.8 per cent, to FF8.14. Here, the market liked neither the fall of 8 per cent in first-half profits, nor the nomination of Mr Franck Riboud, son of the Danone chairman, to the board.

FRANKFURT ignored trenchant arguments expressed last week about the expense of its equity market, and continued to attach itself to US stocks and bonds.

There was little real excitement about a 31.65 rise to 2,193.65 in the Dax index on the session, because volume was inhibited by London's closure and the session's gain little more than consolidated the post-hour close of 2,190.58 last Friday. However, yesterday's post-hour close took the Dax up to 2,215.72 as strength in the dollar continued, and bond futures broke through resistance at 92.

The afternoon's big winners included both oversold defensive stocks and recently popular cyclical Deutsche Bank and 250,000 IT shares, which posted a bounce up DM13.50 at DM431.50 and DM13.50 at DM740.50, and Bayer and Hoechst gaining DM8 and DM8.80 respectively to DM379.50 and DM369.50.

ZURICH moved forward 2.1 per cent in active trade which saw the return of some private investors on Wall Street and bond markets. The SMI index finished 53.9 higher at 2,633.2, with the firm dollar proving

a further positive factor.

Among the banks, hard hit in the week since reporting six-month figures, UBS bears rose SF34 to SF11.60. One analyst noted that investors appeared to be switching from SBC to UBS on reconsideration of its results and in response to news that UBS had substantially increased its securities portfolio in the first half of the year. CS Holding firmed SF15 to SF54.

Roche certificates rose SF140 to SF75.95, close to resistance at SF76.000.

Ciba registered added SF22 at SF821 amid optimism that the group would confirm hopes tomorrow that earnings were accelerating in its industrial and agricultural sectors.

Sandoz, also with half-year results due later in the week, saw its shares advance SF22 to SF715.

Oerlikon-Bührle, which released lower than expected half-year figures on Saturday, slipped SF3 to SF145.

Bearers shares in Surveillance dropped SF35, or 1.7 per cent, to SF2,085 following news that the chief executive officer had stepped down.

AMSTERDAM took its cue from the stronger dollar and firmer US stocks, and the AEX

index gained 3.77 at 424.60. Royal Dutch rose F14.20 to F198.50, the positive impact of the firm dollar outweighing disappointing oil prices. Among other dollar earners, KLM firmed 50 cents to F13.00, Wolters Kluwer added F12.20 to F119.70, VNU rose F13.20 to F184.90 and Elsevier put on F12.80 at F172.00.

MILAN was encouraged by signs of progress on the budget and the Comit index picked up 9.10, or 1.3 per cent, to 894.70.

Insurance shares, strong last week, continued to find favour on expectations that their private pension schemes would see an influx of funds from people worried about future returns on state schemes. Over the weekend, Mr Giulio Tremonti, the finance minister, also said he wanted to see a 15 per cent cut in private pension funds scrapped.

INA gained L35 at L2.397, while Generali, Italy's largest insurance group, ended L488 higher at L42.386.

Banks, underperformers in recent weeks, regained some ground on hopes that they would also benefit from the spread of private pensions. Credito Italiano rose L60 to L5.831, and BCI L55 to L5.335.

Elsewhere, Telecom Italia

climbed L39 to L4,601 while Fiat firmed L90 to L4,611.

THE SMI featured a new high in metals and mining concern Outokumpu as the Hex index strengthened 34.2, or 1.8 per cent, to 1,948.5.

Outokumpu added FM7 at FM106 on strong demand from foreign investors, and on projections of a sharp rise in 1994 profits on higher base metals prices and internal rationalisation measures.

TEL AVIV was expecting an increase in bank rate to combat inflation. It took a 1.5 percentage points rise in its strike and the Mishkanim index recovered 5.88, or 3.5 per cent, to 179.94.

THE FT-SE Eurotrack 100 index was unavailable yesterday because of the English bank holiday.

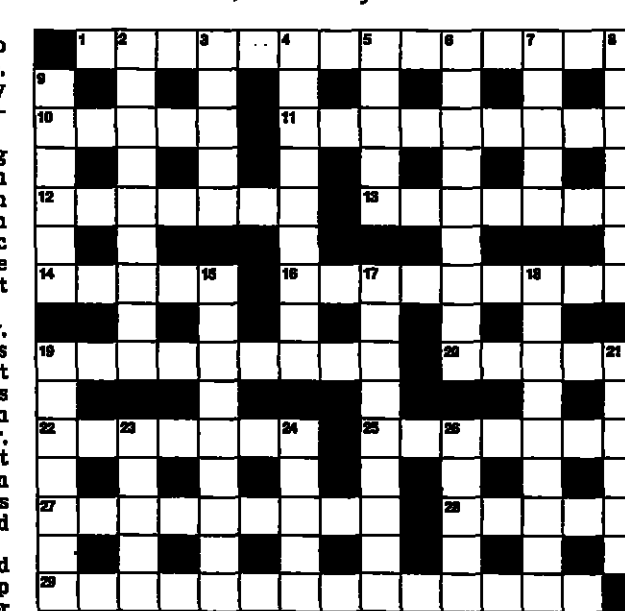
Written and edited by William Cochrane and Michael Morgan

## SOUTH AFRICA

Gold and mining shares came under pressure in thin trade, while industrials were underpinned by Wall Street and recent corporate results. The overall index lost 28 at 5,831, industrials eased 14 to 6,587 and golds gave up 27 at 2,242.

## CROSSWORD

No.8,545 Set by GRIFFIN



- ACROSS**
- Don't enter site said to go underground (4,3,2,5)
  - Assorted bales of fur (5)
  - Use PC reprogrammed after support that's deliberated (9)
  - Harsh south wind on Eastbourne front (7)
  - Dealt with handle she'd half removed (7)
  - He's stolen this skinhead's missing keys (5)
  - Flying doctor takes Mary round hospital (9)
  - Overlooks princess having to carry weight on board (9)
  - First person to leave is always cut off (5)
  - The cleaner and the continental prince (7)
  - Two points he can possibly add to (7)
  - Allocation in Gateshead helps control food supplies (9)
  - Must take 50% of beer to flat (5)
  - One's business is growing, even during recession (6,5)
- DOWN**
- I seem upset about singer's missions (9)
  - Bit one of the men on board (9)
  - Irish person must learn to work (9)
  - Finished last night, it's open (5)
  - Are sent US version of French wine (9)
  - Admit to old lady I overlooked it (5)
  - When Scottish banker used to turn in? (7)
  - Question six-footer suspiciously (5)
  - Free one end of bed and let go (9)
  - Courier made jam with green liquid (9)
  - Notice weathercock label on inside edge (9)
  - Crude MO destroyed decency (7)
  - Sluggered by slippery customer coming in blushing (5)
  - Change in hospital terminology (5)
  - Dangle from pole on part of building (5)
  - When the suspect's around, huffy (5)

Solution to Saturday's prize puzzle on Saturday September 10.  
Solution to yesterday's prize puzzle on Monday September 12.

## JOTTER PAD

Handwritten text in the Jotter Pad area, including the name "M. K. M. M." and other illegible scribbles.

## ASIA PACIFIC

# Taipei rises 1.3 per cent to four-year high

## Tokyo

Arbitrage and dealer buying outweighed selling by institutional investors, writes Erika Terazono in Tokyo, and the Nikkei 225 average gained 128.93 at 20,800.42 after a day's low of 20,518.80 and high of 20,722.84.

A rise in the futures market prompted by the easing of the yen and Friday's rally on Wall Street triggered arbitrage buying in the morning. In the afternoon, the index faced profit-taking by institutional investors booking profits ahead of the September book closing.

The Topix index of all first section stocks was finally 4.39 ahead at 1,640.08 and the Nikkei 300 up 0.76 at 298.57. Advances led declines by 582 to 327, with 222 issues unchanged.

Traders said that while buying orders from public funds were putting a floor under the market, the Nikkei 225 lacked the support to rise above 21,000. "There seem to be a lot of selling orders from corporations around the 20,000 level," said Mr Yasuo Ueki at Nikko Securities. Overseas investors remained on the buying side.

and supported the steel sector. Volume contracted from 233m shares to 306m, most investors staying inactive ahead of the Japan Tobacco auction results. The auction for 250,000 JT shares, which will be listed on October 27, drew bids between Y1.36m and Y2.11m per share yesterday.

The government will announce the public offering price of the remaining 436,666 shares to be offered publicly tomorrow.

Brokers were hoping that the listing of Japan Tobacco and Japan Telecom will revitalise the equity market. Telecommunication linked stocks have been traded actively in recent days ahead of Japan Telecom's listing next week.

DDI, the telecom operator listed on the second section, climbed Y18,000 to Y1,010, and Nippon Telegraph and Telephone added Y5,000 at Y855,000. Nippon Comsys, a telecom engineer, put on Y30 at Y1,580 and Nitsuko, a telephone equipment maker, moved up Y20 to Y1,560.

High-technology issues were higher on the former dollar. Sony advanced Y70 to Y1,900 and Victor rose Y50 to Y1,370. However, Fujitsu eased Y10 to

Y1,070 on profit-taking, while Toshiba declined Y6 to Y746. In Osaka, the OSE average firmed 91.49 to 22,998.70 in volume of 48.3m shares.

## Roundup

Wall Street's performance on Friday underpinned a solid showing in some regional markets. Hong Kong was closed for a public holiday.

TAIPEI moved ahead 1.3 per cent to a four-year high, breaching the 7,000-point level in heavy buying of marine and financial issues. The weighted index was up 87.48 at 7,040.52, after touching 7,069.86, in active turnover of T\$100m.

Shipping stocks, which had lagged behind in previous rallies, were major gainers on good profits outlooks. Yang Ming Marine climbed T\$1.90 to T\$37.50 and Evergreen Marine rose T\$3.50 to T\$55.50.

SYDNEY finished 1.7 per cent higher in good volume, finding additional support in a strong index futures contract. The All Ordinaries index rose 34.7 to 2,111.8.

Sony advanced Y70 to Y1,900 and Victor rose Y50 to Y1,370. However, Fujitsu eased Y10 to

index advancing 35.40 to 2,141.28. Fletcher Challenge, expected to report sharply higher profits tomorrow, appreciated 9 cents to NZ\$4.07.

BOMBAY saw strong demand over a broad front on the first day of the account in specified as well as cash shares, ahead of today's public holiday. The BSE 30-share index closed 94.9 higher at 4,526.35.

SINGAPORE was firmer, with some buying of blue chips boosting an otherwise quiet market ahead of tomorrow's public holiday. Malaysian shares traded over the counter, which led gains in recent weeks, trickled downwards in the afternoon. The Straits Times Industrial index ended 12.29 stronger at 2,305.80.

KUALA LUMPUR was mixed in sluggish trading as blue-chip utilities rose while the broad market fared less well and gaming stocks faltered. The composite index edged forward 8.85 to 1,120.37.

SEOUL finished lower in thin trading and the composite index dipped 5.17 to 936.01, in volume of just 24.54m shares, well below last week's daily average of 32.4m.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

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